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THE FINANCIERS AND THE NATION

THE FINANCIERS AND THE NATION

by The Rt. Hon.

THOMAS JOHNSTON, P.C.

EX LORD PRIVY SEAL

With a Preface by

SIDNEY WEBB

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PREFACE

I REGARD Mr. Johnston's book as of great public service. We cannot be too plainly reminded of the way in which the public is periodically fleeced by financial tricksters and swindlers ; because these highlights of capitalist enterprise are, after each exposure, quickly forgotten. It is remarkable how regularly during the past hundred years the story is repeated. Each decade sees a new variant, but the process is essentially the same. Tens of thousands of small investors, and also some large ones, are persuaded by lies and misrepresentations to purchase shares in what is simply a swindle. Hundreds of thousands, if not millions, of pounds are pocketed by the swindlers and the crowd of accomplices and parasites who 'in the ordinary course of business' co-operate in what must not yet be termed fraud. Presently there is a collapse, and, more or less, exposure : occasionally one or more of the chief swindlers gets prosecuted and sentenced to prolonged imprisonment at the public cost. But there is no effective or prolonged publicity. All the influences 'in the City' combine to hush things up. Any angry talk is bad for business on the Stock Exchange. The banks fear the spread of panic and conceal their own losses. The newspapers are warned on behalf of influential people that any financial scandal interferes with legitimate business, and especially with the advertising of 'promoters.' And so the interest of the public in the latest

financial swindle dies down. The figure of losses is concealed. Presently the crowd of small investors are ready to be robbed again, in some new guise.

Meanwhile, it should be noted, hundreds of little swindles are carried on to the detriment of the public, without any overt criticism or public denunciation. How large is the proportion of rubbish among widely advertised articles, sometimes 'capitalized' at a monstrous price extracted from the investing public, from patent medicines to cheap glow-lamps, no one has ventured to compute. I do not remember that any professional economist has taken the trouble to estimate the total 'exchange value' during any one year of the various kinds of 'illth' that masquerade as 'wealth.'

Mr. Johnston's plain-spoken account of a dozen or so of the most spectacular of these swindles will, I fear, seem to some people almost indecent. To the honest and respectable banker, or the old-established stockbroker specializing in investment business, or the steady-going manufacturer producing a sound article, it will certainly seem in the highest degree unfair to class all sorts of swindling, along with their own upright service, as part of 'the capitalist system.' Their protest would secure more support were it not for one fact. It is just these honest and respectable business people who make possible the hushing-up of the various successive scandals. If they united to demand public investigation and effective publicity the public would not be able so quickly to forget, and the new variant that the swindlers are even now elaborating would have to be postponed. But there is a more serious civic offence of which the banks and the Stock Exchange and such bodies as the Federation of British Industries are habitually guilty. Whenever

the Government, or some important members of Parliament, are at last moved to devise some legislative reform, which would make the successive financial swindles more difficult or more dangerous to their perpetrators, there is only the faintest support from 'the City.' Presently, indeed, memoranda begin to pour in, showing that the proposed new restrictions to prevent swindling, or the suggested additional requirement in the revelations of promoters' prospectuses, would 'interfere with legitimate business.' The desired reforms are obstructed, whittled down and often prevented. That legitimate concern for their own profits, which the honest and respectable financiers are so prompt to manifest, actually keeps open the door for renewed swindles. It is even argued that the losses from such swindles are the price that has to be paid for industrial and financial freedom. It is a drawback that the price is not paid by those who get the profits of that freedom !

This attitude of the honest and respectable bankers, the old-established stockbroker doing investment business, and the steady-going manufacturer producing a sound article, is what justifies, and even compels, our inclusion of all the swindles, great and small, in the capitalist system for which the nation relies for nearly all its production and distribution of wealth. It would, indeed, be unfair to blame the bankers, the stockbrokers, and the manufacturers for causing the swindles. The proceedings of Hatry or Kreuger, Bottomley or Farrow, White or Loewenstein ; or those of the more shady of the issuers of foreign loans, or new amalgamations, are not actually caused by the capitalist system. But I think we are warranted in concluding, from the history of the past hundred years, that they are what the logicians used to call 'insepar-

able accidents ' of such a system. And it is the honest bankers, the respectable stockbrokers, and steady-going manufacturers, who, whenever the question of reform arises, in effect tell us that these ' accidents ' are ' inseparable ' from their essential freedom to make profits.

Mr. Johnston has useful sections on such improvements in the system as the effective nationalization of the Bank of England ; the development of municipal banks like that of Birmingham, established by so reckless a Socialist as the present Chancellor of the Exchequer ; the throwing open to wider utility of the Post Office Savings Bank ; and the planning and direction of a capital investment Board. These are all reforms that have received high expert support. I must refrain from doing more here than invite the reader's special attention to them.

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NOTE

Parts of the earlier chapters in this book were written for and first appeared in the columns of *Reynolds* and *Forward*. The Editors of these papers are thanked for permission to alter and reprint.

CHAPTER I

THE STEAM POWER SPECULATORS

‘ Within a few hours of a state of barter . . . the rash spirit of speculation.’—HUSKISSON, President of the Board of Trade, 1826.

IT was in the year 1825 that the newspapers first began to publish, with any regularity, a Money Article. That was when the first big Stock Exchange crisis had developed out of the mad finance speculations during the application of steam power to industry.

The use of James Watt’s great discovery of steam power in industrial processes was accompanied by a wild scramble in company-promoting in foolish and frequently bogus enterprises ; and while the capital savings of the nation were swept into the clutches of plausible crooks, a generation which ought to have benefited from the new powers in wealth production, was suddenly, and to the victims incomprehensibly, engulfed in ruin, distress, and misery.

In the year 1824, companies to the number of 156 had been formed with an issued capital of £48,000,000 to manufacture with steam power. By the beginning of 1825 these companies had increased in number to 624 with a capital of £379,000,000 ; the imports of raw cotton rose by 61,000,000 lb. ; a company was formed with Lords Lansdowne and Liverpool as President and Vice-President respectively to spend £1,000,000 on the cultivation of mulberry trees and the silk-worm in Great Britain and Ireland. Shares

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in South American concerns rose to fabulous heights ; the £10 instalment of the £40 United Mexican share sold for £155, and the £70 instalment of the Real del Monte £400 share for £1350. Especially great was the London Stock Exchange credulity about Peru, where it was said silver was so plentiful that the meanest utensils were made of it.

Then came the inevitable slump, and the total savings of hundreds of thousands of families disappeared.

Of the 624 steam companies with the capital of £379,000,000 already referred to, only 283, with £48,000,000 of the stock subscribed, survived on the stricken field. Seventy banking houses closed their doors, six of them in London ; and there was a run on the Bank of England to such an extent that, as Huskisson, the President of the Board of Trade, declared : ‘ We were within a few hours of a state of barter.’

Fortunately—so the story goes—at a desperate moment in the fortunes of the Bank of England, some one discovered 600,000 or 700,000 one pound notes lying in a box in the cellars, overlooked when the Bank had called in its small notes in the previous year. This timely and opportune discovery (whether of old notes, or notes hurriedly printed, who can tell ?) saved the situation ; the City Merchants passed resolutions of confidence ; the Bank of France (how reminiscent of the autumn of 1931 !) lent two millions in three months’ bills ; and the Bank of England just, but only just, weathered the storm.

Nevertheless, in February 1826, sixty banking firms stopped payment, and the nation, in Canning’s words, went through ‘ one of the most tremendous and searching convulsions ever experienced in any country ’ ; thousands were ruined ; all the South

American and Mexican investments disappeared, and not until the end of the year did 'confidence' return again.

One adventure of the 1825 speculation is worth a line *in memoriam*. It is of a churning company which actually sent out a group of Scots lassies as milkmaids to milk the cows and make butter in Buenos Aires. When they got there they found that the shops had already all the butter they could sell, and that the gauchos and the natives anyhow preferred oil.

In this great crash of 1825-6, hundreds of thousands of humble folk were stripped of all they possessed, not because of speculation or gambling in which they themselves had participated, but because the bank directors to whom they had for safety entrusted their slender savings had rashly and madly adventured them in crazy and wild-cat hazards and follies in the search for profits.

Not all the companies floated in these hectic days of 1824-5 were concerned with steam-power production. There was, for example, the London Genuine Snuff Company and the Economic Funeral Company, to say nothing of the Cemetery Company advertised in *The Times* as promoted to give 'perfect security for the dead.' And the crash, when it came, disclosed a disturbing number of bankers, who had engaged in personal speculation with their depositors' money. There was, for example, the Fauntleroy case, where Henry Fauntleroy, the managing director of the banking house of Marsh Sibbald, Stracey & Co., was proved guilty of forging signatures and stealing £170,000. The bank was smashed and so, alas! were the confiding depositors. Fauntleroy was hanged outside Newgate Prison in November 1824.

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The banking house of Remington, Stephenson & Co. failed with liabilities of £508,000. Here the chairman was M.P. for Leominster, treasurer of Bart's Hospital, and (as later transpired) was a considerable performer at the gaming-tables—with the money of his depositors and clients. His personal share in the embezzlement was £200,000, and when detection became inevitable, he annexed another £50,000, and bolted for Savannah !

Queen Elizabeth, we know, ran State lotteries ; the British Museum was partly built from the proceeds of a State Lottery in 1753 ; and, until they were abolished altogether by Act of Parliament in the year 1826, there were continual public lotteries of one kind or another where a citizen might take a gambler's throw with his money. But the public lottery must have been a safe gilt-edged investment compared with the private banking establishment of a century ago. The resources of the private banker were limited, and it only required the collapse of one or two of the company promoters he had financed to compel him to close his doors, and in so doing ruin his unfortunate depositors.

CHAPTER II

FOREIGN LOAN PANICS

‘ Every loan
Is not merely a speculative hit,
But seats a nation, or upsets a throne.’

BYRON, *Don Juan*.

THE second large-scale mania and panic of the century occurred in 1835, and was due to huge losses incurred by the banking houses of London in the financing of foreign loans. In the first quarter of the century our bankers had ventured abroad £100,000,000 of borrowed money. The Rothschilds had pioneered the international loan idea—loans to Prussia, Spain, Naples, the Argentine, Columbia, Guatemala, and large-scale dealings in Russian and Danish loans. Of this £100,000,000, no less a sum than £25,000,000 never received a dividend, and sank without trace, *spurlos versenkt* !

Of the balance the Argentine defaulted in 1833 ; and Columbia and Guatemala paid nothing for years ; the Report of the Council of Foreign Bondholders records the fact that Mexico had borrowed £3,200,000 from the London Bank of B. A. Goldsmidt & Co. at 5 per cent., in 1824 ; she has long since defaulted upon that loan, and we are not surprised to learn that the loan was so floated that Mexico had some apparent justification for defaulting, inasmuch as she only received £58 for every £100 of the debit she incurred.

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There are eight States in the United States Confederation, who between them borrowed £15,040,000 from London in the good old days a century ago, and who have since been too proud to pay either principal or interest. These original borrowings in these American defaults are :

Alabama . . .	£2,600,000	Louisiana . . .	£1,200,000
Arkansas . . .	£1,740,000	Mississippi . . .	£1,400,000
Florida . . .	£1,600,000	North Carolina . .	£2,600,000
Georgia . . .	£2,700,000	South Carolina . .	£1,200,000

The Council of Foreign Bondholders in 1930 asserted that the arrears of interest on the American defaulted loans had accumulated to the sum of £52,339,200. If Mr. J. H. Thomas (with the Irish scalps on his belt) ever hears of the American repudiations there may yet be a war, economic or military, for recovery.

En passant, we note that in 1832, the year of our great Reform Act, the financial houses in London were engaged in a filibustering war which has been completely crowded out from our school history books. It was the war of Dom Pedro, a gentleman who was financed by the money brokers of London and who was supplied with British officers and stores in an attempt to capture the throne of Portugal.

There was no pretence here of carrying the blessings of civilization, or Christianity, or colonization or the Pax Britannica, no fear of revenge or any of the usual reasons for war ; it was just a gamble for loot and plunder. Admiral Napier was placed in charge of Dom Pedro's fleet by the London money market, and when Napier seized Oporto, first a sum of £800,000, and subsequently a further £2,000,000 worth of

Portuguese Bonds, were unloaded upon British investors.

Great Britain was not at war with Portugal, nevertheless the Dom Pedro filibustering expedition was organised and equipped by London banking houses, the prime motive, says Mottram,¹ being 'the unloading of insufficiently secured paper upon the investing public.'

When Dom Pedro's predecessor and opponent, Dom Miguel, hurriedly left Portugal (with a pension of £1500 a year for life, which, to do him credit, he afterwards declined to accept) things looked merry for the London speculators. There was to be a golden harvest. But alas for human gratitude, the new Dom Pedro government actually imported Germans and Belgians and treated the British money-lenders shamefully; in fact, they declined to pay either principal or interest upon the buccaneering costs of the London Money Market expedition, and for years—certainly until 1856—the London Stock Exchange in disgust refused to allow any further Portuguese quotations upon their lists.

The big Dom Pedro loan in London was for £2,000,000, at 5 per cent., but since for each £100 bond he only received £48, it is obvious that he was expected to pay over 10 per cent upon what he actually received. For later loans he had to promise to pay even more ruinous terms. But the Dom (as we have already shown) paid neither principal nor interest, and he actually levied a 15 per cent. import duty upon the equipment and clothes for his Stock Exchange financed English army of mercenaries.

So much for our old ally of the House of Braganza !

Among the other ramps to which we can trace the

¹ *History of Financial Speculation*, p. 179.

second great panic and distress of the nineteenth century were the South American adventures of our financial aristocracy.

A rebellion in Columbia, cynically described upon the prospectus as a War of Independence, was financed through Herring, Graham, & Powles in 1820; the terms of the loan were £2,000,000 at 10 per cent., but only £84 was given the Columbians for each £100 of actual debt they incurred, and the London lenders, in addition, were to retain eighteen months' interest in advance.

In 1824 the Columbian War of Independence was in full swing (during the war the insurgent leader Bolivar issued a decree, *Guerra a muerte*, death to any Spanish prisoners) and Messrs. Goldsmidt & Co. of London obliged by raising from British investors a further £4,750,000 at 6 per cent., for the insurgents against Spanish rule, but only £88 10s. to be given for each £100 nominally borrowed.

By 1826 this loan also was in default.

Over the exploitation of Honduras there have been frequent disputes between the money kings of New York and London; operations for the investors of Britain being initiated by Messrs. Bischoffsheim & Goldsmidt, of London, and a lien obtained on railways, mahogany forests, and revenues of the State domain, as security for a 10 per cent. loan issued at 80. These Honduras loans, as we shall see later,¹ became the subject of a special public inquiry by a Select Committee of Parliament. Honduras began defaulting upon her debts to London as early as 1827.

Nicaragua paid nothing on her debt to London from 1827 to 1874, when she offered a composition of £14 per £100 stock. Two English groups, however, held

¹ P. 34.

on to liquor and tobacco monopolies in Nicaragua until 1910, when these monopolies were declared to be 'unconstitutional' by the Nicaraguan Government.

Brazil since, about 1825 might have been described as a Rothschild State.

The chief financiers of the Argentine have been Baring Brothers, Murrieta & Co., Stern Brothers, and Erlangers. A 6 per cent. Argentine loan raised in London at £85 was in default in 1830.

Paraguay gave a London finance house 8 per cent. bonds of £100, but got only £64 cash; the British investor subscribing £80, but the finance house deducted £16 for its trouble. This loan also was defaulted.

A struggle over the coffee warrants in Guatemala between rival gangs of money-lenders in London and Berlin, each claiming priority in taxation of the Guatemalan farmer, caused much ill-feeling between Britain and Germany in the 'nineties, and contributed something to the ill-will which exploded in the Great War in 1914.

Ecuador has had long periods of being unable or unwilling to pay tribute to the London money market.

Greece was assisted by the London money-lenders with an 'Independence' loan in 1824. The amount was £800,000, but even the *Encyclopaedia Britannica* draws attention to the fact that after commission, etc., was deducted all that reached Greece was £280,000. The next loan to promote Greek 'Independence' was in February 1825, and the amount was £2,000,000 at 5 per cent. But the Greeks only got £56 10s. per £100, and their loan was spent for them in the purchase of two frigates. Upon these amazing ramps Grecco paid nothing from 1827 to 1879, although the Rothschilds were on the scene between 1830 and 1840 with fresh loans secured upon the customs receipts of the country.

And while upon the subject of these foreign investments of British 'savings' and 'thrift' one must refer to Mr. H. N. Brailsford's inimitable picture, in his *War of Steel and Gold*, of the Turkish railway over which he once had the misfortune to travel. The foreign financiers who had secured the railway concession had also secured a guarantee from the Turkish Government of a fixed profit per mile of rails laid down; they, therefore, instead of running their railway in a straight line from point to point, conceived the ingenious idea of running it zigzag, backwards and forwards, in order to double the mileage. Under such circumstances the railway could never pay; but, no matter; the foreign financiers had the right to seize the tithes of the Turkish peasants in any year in which there was a default.

Two finance houses kept clear, or all but clear, of the hazardous ramps with British deposits in the South American insurrections of a century ago; these two houses were the Barings and the Rothschilds.

The grandson of a Lutheran pastor in Bremen had become the founder of the Baring Brothers firm in London, where he had collected a fortune of £7,000,000; from him have descended the noble families of Northbrook and Ashburton.

But of the story of the Rothschilds a little more is known; we are told that Nathan Rothschild, the third son of an old Frankfort banker, arrived in Manchester with £20,000 in his wallet, and without the ability to speak a word of the English language; at Manchester he thrived in cotton deals, and then moved to London.

Napoleon had invaded Germany, and the Prince of Hesse-Cassel, at that time reputed to be the wealthiest man in Europe, had fled, but before his departure

he had left £600,000 in the charge of Nathan Rothschild's father. The origin of this £600,000 and the remainder of the great Hesse-Cassel fortune has been traced to the patriotic practice of the Hesse-Cassel gentleman in selling his soldiers cheaply to the English Government, by whom they were used to fight against the American colonists and against the French in Spain. He sold his fellow-countrymen with the same concern as a farmer sells his cattle—no less and no more. His father, who had been at the job before him, died in 1785 worth 56,000,000 thalers, or, say, £8,000,000. His son continued to sell his subjects as cheap fodder for the English in their wars, and added greatly to the family wealth. And old Rothschild *père* was the agent, or factor, for the investment of all this Hesse-Cassel money. As one reads the story of these cold-blooded traffickings in the conscript soldiery of Hesse-Cassel, one almost understands the Nazis of to-day.

The £600,000 already referred to was sent on to Nathan Rothschild in London for security ; when he received the money he speculated with it ; he financed Wellington's Peninsular War at 'enormous profits'—profits declared by his contemporaries to be £150,000 a year for eight years. His relatives in Paris meanwhile financed the French, doubtless also at enormous profits, and presumably also with Hesse-Cassel money.

By the year 1812, says Count Corti, in his story of the *Rise of the House of Rothschild*, Nathan was in 'immediate touch with the private finances of the British Royal Family.' Two years later, in 1814, the Rothschilds were financing the return of the Bourbons to the throne of France, and after the fall of Napoleon at Waterloo they metaphorically had all the Governments of Europe in their capacious pockets.

Nathan had become a nationalized Britisher in 1804 ; in 1815 he was created an Austrian nobleman ; he issued the British public loans of his period, always unloading them, of course, on the public at a higher price than he paid for them to the British Treasury. When he had sold the stock he was not content, but must needs juggle the market, depressing it with false rumours, then purchasing back the stock ; and then again disseminating good news and elevating the market, he would sell the stock once more, and reap another profit.

He was not much given to boasting, old Nathan, but his £20,000 capital, he said, had become multiplied 2500 times in the course of five years, and he is said to have nearly made £1,000,000 sterling out of early news of the result of Waterloo. He stuck to public debts—mostly European—and seldom ventured into joint stock speculations among the lesser jackals of the money market.

Yet now and again he went into commerce, if he could get a monopoly, as, for instance, when in 1832 he purchased both the Spanish and Austrian quick-silver mines, and doubled the cost of mercurial preparations to the sick and the suffering of all nations.

But despite all his millions, it is said of him that he never ‘ paid his employees a farthing more than was necessary for their bare subsistence—or at least not one farthing more than they could compel him to pay.’ ¹ And when he died, not a legacy to an employee, not a single charitable bequest !

Public curiosity was never satisfied about the extent of his fortune, and his executors were directed by his will to confine themselves to their administrative

¹ Martin, *Stories of Banks and Bankers*.

duties and not to seek to pry into matters with which they had no legitimate concern.

His son and successor, Lionel de Rothschild, financed no fewer than eighteen British Government Loans, French and Italian railways, and Disraeli's Suez Canal speculation, out of which last-mentioned deal, he, Rothschild, netted £100,000. Elected for the City of London to Parliament in 1847, he could not take his seat because he refused to take the Parliamentary members' oath on the 'true faith of a Christian,' and it was not until 1858 that the oath was amended and he could sit at Westminster.

And it is rather a joke that Lionel de Rothschild lost his Parliamentary seat in 1874 because of his temerity in opposing Gladstone's proposal to abolish the income tax. Rothschild wanted the substitution of some fresh tax upon the wealthier classes to take the place of income tax. But his constituents in the City of London would have none of it, and so they parted company with their multi-millionaire banker representative.

CHAPTER III

THE GREAT RAILROAD RAMP

‘What error in railway legislation is it, that has made possible such complicated chicaneries?’—HERBERT SPENCER, ‘Railway Morals and Railway Policy,’ *Essays*, vol. iii.

TOWARDS the tail end of the foreign loans panic of 1835–6 there was a sudden spurt of extravagant speculation in the home market. Perhaps it was the reaction from foreign lending and the defalcations abroad that had turned the attention of the financial promoters to British industries again. But between January and November of the year 1836 there were no fewer than 42 new Joint Stock Banks floated in Britain to cope with new commercial ventures, and three-fourths of these Joint-Stock Banks issued their own notes, the total currency of the country being increased in one year by over 50 per cent., and we are told that ‘every newspaper teemed with prospects of commercial venture of the wildest kind.’¹ But the boomlet was short-lived. Soon there was a run upon these mushroom banks and another commercial crash, and thousands of families were ruined. Scarcely, however, had the reverberations of this crash passed, ere the money-lenders were again engaged in pouring what depositors’ money they could lay their hands upon into railway development schemes, often of the most absurd and fantastic kind. Railway Company shares were grossly inflated in value; projects worth

¹ The *Annual Register* for 1837.

absolutely nothing were sold and resold at swollen prices during the next decade until 1847, when the whole edifice toppled over again, and in ten railway corporations alone the unfortunate shareholders lost no less than £78,000,000 sterling.

The leading figure among the Railway Kings in the first half of last century was George Hudson, who operated upon our grandfathers and grandmothers with the same *sang froid* and effrontery that Hatry and his like have operated upon this generation.

Hudson was born at Howsham, near York, in 1800. His father, a farmer, apprenticed him to a firm of York drapers, where he subsequently acquired a partnership. By the time he was thirty-seven years of age he was Lord Mayor of York. He became a pioneer of railway company promoting; saw the advantages of amalgamating smaller systems, and was appointed chairman of the combination which in time developed into the Midland Railway Company.

By the year 1844 he was popularly known as the 'Railway King'; he had 1016 miles of railway under his supervision; and when Mr. Gladstone introduced to Parliament a proposal to nationalize the railways, the opposition was led and organized by this plutocrat promoter from the north. He had reached nodding terms with the Prince Consort, and the aristocracy flocked after him for pickings; he had become Tory M.P. for Sunderland, having defeated the Cobden-Bright party and their nominee, Colonel Perronet Thompson; and the London *Times* regarded his election as of such paramount importance that it ran a special train to London with the news.

At the height of his appropriations he is said to have

accumulated property worth £1,500,000, including a princely residence at the Albert Gate, London. By paying dividends, out of the shareholders' capital in concerns which before his control had paid nothing, he achieved considerable temporary popularity among the shareholders, and his unconscious victims in the Eastern Counties' concern actually got the length of proposing a national testimonial of thanksgiving to be expended upon a statue of the dividend-producer, whom, so they said, 'future generations would admire'!

But this statue business was too much for Thomas Carlyle, and so excited his wrath and ridicule that he exploded in scathing, scorching terms in his *Latter-Day Pamphlets*. 'This big, swollen gambler,' he wrote of Hudson, 'has only produced scrip out of which profit could be made'; and he likened him to one of those American 'overgrown monsters of wealth . . . who have made money in dealing with cotton, dealing in bacon, jobbing scrip . . . glittering man mountains filled with gold and preciousities; revered by the surrounding flunkies,' and so on. Carlyle loathed him and all his kind.

Towards the end of 1847 came the inevitable collapse in railway finance.

Borrowing reserves to pay dividends, paying dividends out of capital while the shareholders believed the dividends were coming from profit, issuing bogus shares and such-like trickery, could not go on for ever, and, when the inevitable exposure came, the swollen values of the British railways were punctured, and thousands of people were ruined.

The various Committees of Investigation which were set up subsequently reported between them that, one way or another, Hudson owed the

Companies over half a million pounds. His liabilities included :

The Great North of England. (Money borrowed)	£11,292
East and West Riding Shares	£96,000
Landowners' and Contractors' money due. (Cash drawn by Hudson, but accounts unpaid)	£68,479
North British Company	£62,267
Iron rails. (Selling to his own company iron rails at a huge profit. He bought the iron rails at £6 10s. and sold them to the railway company, of which he was Chairman, at £12 per ton)	£66,203
Sunderland Docks	£41,000
Profit on Newcastle and Berwick Shares	£149,704

(On the amalgamation of the Newcastle and Berwick Railway Company with the Newcastle and North Shields Company he had secretly increased the authorized issue of shares by 14,000 and had 'made no entry of the fact in the account books'; the shares were at a premium, and upon that deal alone he had pocketed over £149,000.)

Brandling Junction. (New shares which he voted to himself at £21 premium)	£42,000
Hull and Selby shares	£42,000

The shock to the investing public of the exposure of the rascalities and rogueries of the Hudson type of railway promoter in 1847 was so serious that railway shares became unsaleable at any price.

Singularly enough, when in 1847 Hudson's companies ceased to pay dividends, and when angry shareholders' associations proved against him fraudulent appropriation, bogus balance-sheets, and other malpractices, he was not criminally prosecuted.

Many years later, in 1865, he was indeed, sentenced to nine months' imprisonment in York Castle for contempt of the Court of Exchequer in not paying a large

debt for which judgment had been given against him ; but for his wholesale and retail malfeasance among the railway stocks and shares he was never charged in a Court of law.

The chairman of the Eastern Counties Railway Shareholders' Committee of Inquiry was a Quaker called Cash, and the following rather quaint dialogue took place between Cash and Hudson when the millionaire was being examined. It was at this inquiry that Hudson was proved guilty of having paid dividends to the extent of £300,000 out of the capital of the Eastern Counties Company.

Mr. Cash : ' George Hudson, wilt thou take a seat ? As thou hast the financial department of this company under thy especial control, thou art required to answer a few questions which the committee will put to thee. Didst thou ever after the accountant had made up the yearly accounts alter any of the figures ? '

Hudson (after hesitation) : ' Well, I may perhaps have added a thousand or two to the next account.'

Cash : ' Didst thou ever add ten thousand pounds ? '

Hudson : ' Ten thousand ! That is a large sum.'

Cash : ' It is a large sum, and that is the reason why I put the question to thee. Wilt thou give the committee an answer, yea or nay ? '

Hudson : ' I cannot exactly say what may have been the largest sum I carried to the following account.'

Cash : ' Perhaps, George Hudson, thou couldst inform the Committee whether thou ever carried to the next account so large a sum as forty thousand pounds ? '

Hudson : ' Oh, I should think not so large a sum as that ! '

Cash : ' But art thou sure thou never didst . . . ? George Hudson, take the questions home with thee

and send written answers to the Committee at thy earliest convenience.'

Whether Hudson ever found it convenient to supply detailed particulars of his fraudulent balance-sheets I know not, but he seems to have treated all these angry victim shareholding Committees with the most profound contempt.

Hudson was chairman, not only of the Eastern Counties, but also of the Midland, the York, Newcastle and Berwick, and the York and North Midland Companies, and from each he had borrowed the reserves to pay dividends and keep up the price of the stock in the market. Yet, albeit he was a large-scale rogue and reckless speculator with the savings of lesser folk, it must be said for him that he was a born business organizer, who succeeded (partly, it is true, by bribery and fraud) in linking up and amalgamating dozens of small competing railway lines into large units, and making effective national scale transport possible.

There were, of course, other rogues and rascals besides Hudson responsible for the commercial depression and ruin of 1847. Indeed the whole business system seems to have been honeycombed with them, and the wreckage of their depredations was everywhere. The *Annual Register* for September 1847 tells us that the failures of commercial houses were 'almost unexampled' and the Government stocks fell by one and sometimes two per cent. in a single day; railway shares 'were, in fact, unsaleable.'

In October 1847 the failures continued, including six banks; Government Stocks fell to 79½, which meant a drop of one-fifth in the total capital value of gilt-edged investments; the commercial credit of the country was 'threatened with total destruction,' and the Prime Minister, Lord John Russell, sent a letter to

the Governor of the Bank of England urging him to issue credits at 8 per cent., and promising a Bill of Indemnity for whatever currency the Bank issued over the limit allowed by law. •

In November 1847 there were continued commercial failures, including three banks, but by December the fury and the fear had somewhat spent themselves, the Bank of England's inflation policy was producing effects, and in some industries there was sign of recovery.

But not for the railways. No ; there the scandals stank to Heaven, and if any one in 1847 had proposed to invest a sixpence in the morass of railroad finance his relatives would have had him medically examined.

First the promoters, the landlords, and the Parliamentary lawyers had plundered and robbed the railway concerns ; then the financiers had arrived, and the result of their manipulations with railway stock had been such that it had become absolutely unsaleable ; hundreds of thousands of families were ruined, and there ensued such widespread devastation and panic as the country had not seen before nor—even including the depression in the years 1921-33—since.

CHAPTER IV

TRUCK TRICKS

‘An’ cheat like ony unhang’d blackguard.’—ROBERT BURNS,
The Twa Dogs.

THE school history books tell us little or nothing about the Truck Acts, or of the prolonged agitations in the industrial towns which compelled the House of Commons to pass that series of measures for the enforcement of wage contracts and for ensuring the payment of wages in current coin, and the right of the wage-earner to spend his money in markets of his own choice.

The subject is of considerable importance, for until the grosser evils of the Truck system had been struck at by Parliament, the Co-operative trading system, as we know it to-day, was really impossible of operation.

The oldest form of Truck was one against which we find legislation in the year 1465; at that time Parliament had approved of regulations designed to prevent Trucking (and consequently ‘tricking’) of makers of cloth in London whereby, as the preamble to the Act has it, the workmen ‘have been driven to take a great part of their wages in pirns, girdles, and other unprofitable wares.’

And, indeed, so late as 1849 we can trace this species of truck rascality in the clay pipe trade at Glasgow, where the workmen who manufactured clay pipes for the smoking of tobacco had to take their wages at the week-end in the form of a basket of clay pipes,

and were compelled to spend their Saturday evenings selling the pipes in the streets to get their wages. Oftentimes they had to sell at a considerable sacrifice.

But the most widespread and the most hated form of Truck robbery during last century lay in the practice of compelling workmen to spend their wages at a particular shop or store. The early industrial capitalist having gathered workers into his factory or his mine, was not content with the profits he made in his industrial processes, but he must needs set up, adjacent to his work, a store where he retailed food, clothes, Bibles, whisky, etc., at ruinously high prices to his employees. He insisted upon a monopoly for his store, and he was prompt in discharging from his employment any independent workman who (or whose dependants) purchased household necessities elsewhere.

This monopoly shop system was in full swing in the iron and coal districts in the late 'sixties of the nineteenth century. Wages at that time were on a monthly basis (sometimes, as at Dudley among the nailmakers, on a three-monthly basis) *and advances known as 'subs,' to keep the workman and his family alive, were charged at rates of interest varying from 125 per cent. to 900 per cent. per annum*, the employers arguing that the more pay-days there were the more debauchery there must be. Thus for a loan of part of what they had already earned, men paid an unconscionable usury. And, furthermore, the evidence given before the Commission of Inquiry (and there were lots of inquiries into the matter) was consistent and emphatic that the price rates in the employers' store was normally some 20 per cent. higher than outside prices; in Staffordshire they were actually 40 per cent. higher.

Truck shop goods were of inferior quality ; but the frequent complaints by the workmen in that respect were only a beating of the air. The Truck shop managers, secure in their monopoly and selling inferior goods, regularly engaged in a little extra robbery by short weight and adulteration, whereby some of them left at death personal fortunes of £10,000 ; and any nasty protests from the purchasers were speedily dealt with by the sudden unemployment of the protesters.

In 1870 the Truck Act Commissioners reported that in Shetland

‘ Even the paupers were trucked by the Poor Law Inspectors, who kept shops and served them with goods instead of money.’

In the Black Country the nailmaker was compelled to buy his metal from men who were called pettifoggers, and who owned liquor shops ; if the nailmaker did not drink in the pettifogger’s shop he got no metal.

In the ’sixties of last century even the proprietor of the great steel works at Mossend, Lanarkshire, being himself a Justice of the Peace, saw to it that no liquor shop other than that at his own works was permitted in the neighbourhood ; to his industrial profits he added profits on the monopoly vending of alcohol to his employees.

On pay-days a small handful of coins sufficed for hundreds of men. The pay office window would be adjacent to the store, and when the first workman in the queue was paid his wages he had to go immediately to the store window to pay his debts for the month ; the store-keeper then handed back the money to the pay clerk at the wages window, whereupon, but not until then, the second man was paid his wages. And so on down the queue.

Everything the workman bought was trucked—his food, his beer, his coffin—and the quality may be guessed. The schoolmaster and the doctor were often appointed by the employer and trucked to his workmen at a profit. The Hammonds¹ tell us that sometimes the employer even provided the church for his workmen. Until recently in Scotland there were colliery villages where the road of approach to the village was chained off to prevent grocers' and butchers' vans from invading the coalmasters' shop monopoly.

Girls employed by the fishcurers frequently had to take their wages in fancy goods which they did not want—goods the storekeeper could not dispose of otherwise.

The worsted in a Shetland shawl which sold at 26s. was worth from 2s. to 3s.; and while the girls nominally got 9s. for making the shawl (which brought the cost of the shawl to, say, 12s.) they were compelled to take their nominal 9s. wages in goods worth only 4s.

That was Truck in its most impudent and irritant form; and, of course, so long as it obtained, and where it obtained, there could be no Co-operative store. But there were still other ingenious Truck devices whereby certain employers sought to divorce the workman from his wages; for example, there was a common practice of arbitrary fines and deductions from wages based upon all sorts of amazing pretexts, so that the workman seldom knew whether he would or would not receive any wages at all.

William Cobbett² gives us a list of the fines then in

¹ *The Town Labourer*, p. 412.

² *The Political Register*, 1823.

operation at the Tyldesley Mills, where, he asserts, the heat was from 80 to 84 degrees :

	Fine.
Any spinner found with his window open	1s.
Any spinner found dirty at his work	1s.
Any spinner found washing himself	1s.
Any spinner leaving his oil-can out of its place	6d.
Any spinner putting his gas out too soon	1s.
Any spinner spinning with his gas-light too long in the morning	2s.
Any spinner having his lights too large (for each light)	1s.
Any spinner heard whistling	1s.
Any spinner being sick and cannot find another spinner to give satisfaction must pay for steam per day	6s.

In this particular mill, says Cobbett, the employees worked fourteen hours per day with the doors locked.

Again there is upon record in the year 1869, the case of an Aberdeen firm where the hours of toil for the employees were fixed as from 6 a.m. to 6 p.m., 'and also such additional hours as may be required'; the firm levied a deduction of 2s. per employee as a guarantee of good behaviour; and if the worker broke his engagement or was disrespectful, unsteady, or intemperate, he was fined £2, and in addition his savings, if any, were confiscated by the employers.

Shipyard workers on the Clyde were fined 1s. for talking during working hours; and for every two hours' absence from work 'except in cases of sickness, of which previous notice must be given,' they had to pay one-fourth of a day's wages.

The colliers were systematically cheated at the weighing tables; and in Northumberland and Durham in 1825, when a hewer's corf or basket was weighed, the whole basket was confiscated by the employer if any 'deficiency' was discovered; deficiencies were frequent, and there were complaints

by the men that the standard measure was frequently tampered with.

George Howell ¹ tells us of iron workers at Cradley in 1844 who had only an average wage of 10s. per week, and even that was subject to deductions.

Parliament legislated (or pretended to legislate) almost continuously against these impudent and rascally supplementary exploitations of the workman. Between 1665 and 1825 there were no fewer than thirty-six Acts of Parliament having reference to Truck and wages, but the Justices of the Peace authorized to enforce the laws were themselves often the employers involved, and they only enforced what law suited them. Indeed the Hammonds say ² that the Justices, so far from enforcing the Truck Acts against employers, actually used the Vagrancy Act in order to punish workmen who had the hardihood to make complaints against their employers under any of the Truck Regulations.

¹ *Labour Legislation* (i. 124).

² *The Town Labourer*, p. 67.

CHAPTER V

THE VULTURES

‘ . . . borrows money in God’s name, the which he hath used so long and never paid, that now men grow hard-hearted.’—SHAKESPEARE’S *Dogberry*.

NO record of financial and banking exploitation in the middle of last century would be complete without reference to the great Globe Assurance frauds and to the widespread embezzlements of money by highly-paid thieves in the banking world during that period. In the year 1844 Walter Watts, a £200-a-year clerk in the bank pass-book department of the Globe Assurance Company, suddenly blossomed out as a leader in high finance ; he appeared to have almost unlimited money to burn ; his establishments and recreations were of the most luxurious kind—for example, he maintained two London theatres, the Marylebone and the Olympic in the Strand—and it was given out that he had been a fortunate speculator on the Stock Exchange, his good fortune arising from secret information given him by his friend, King Louis Phillipe of France !

It was certainly curious that this plutocrat should still retain his clerkship with the Globe Company ; but there you were ; who could comprehend the freakish vagaries of the great ?

And from 1844 to 1849 Walter Watts was an accepted leader of fashion and a patron of the *beaux arts*, expending, it was afterwards estimated, about

£700,000 upon his foibles. But in 1850 came the dramatic announcement that the sources of his income were fraudulent, and that he had been arrested.

With great hauteur he denied the charges preferred against him ; these, he said, were but the scurrilous and envious yelpings of unsuccessful men ! Nevertheless a firm of accountants produced evidence of fraud and forgery by Watts on the grand scale, and he was sentenced to transportation for ten years—the sentence, however, never being carried out, for Watts managed to hang himself in the lavatory at Newgate.

The report of the accountants to the Globe Assurance Company has not been published, and doubtless there was good reason enough for withholding from the public a report necessarily in condemnation of the stupidity and slackness of the Globe office arrangements, which permitted Watts to engage in his frauds, and for such colossal sums, and over so long a period. But sufficient information leaked out in the trial to enable us to understand Watts' *modus operandi*.

It appears that the books of the Company were based upon the bank pass-book, which Watts kept ; if false entries appeared in the bank pass-book then these false entries were in due course transferred to the other books of the company.

If the bankers cashed a Watts' cheque for £554 10s for, say, Annuity Policy number 6, and entered this £554 10s. in the bank pass-book, Watts would afterwards erase the 55, thus making it appear as if the cheque drawn was one for £4 10s. only. And in order to make detection more difficult he would enter the Annuity Policy number as 64, by adding the figure 4 to the figure 6.

But there was £550 to cover up, so Watts searched for some trifling fire loss, perhaps one for £7 10s.

which had been passed for payment, and by prefixing to the £7 10s. the figures 55, he made it appear that the sum of £557 10s. had been paid upon the fire loss.

It is difficult to see how forgery and jugglery like that could escape detection for years, especially when Watt's mode of living was so notoriously extravagant; but the accountants were a long time in unravelling the skeins, and, indeed, it is not clear that the learned Judge who tried the case understood, any more than we casual readers do to-day—the whole process of double shuffle and cross-entry by which young Watts—he was only thirty-three years of age—managed so cleverly and so brazenly to plunder the Globe funds.

There must indeed have been great contributory negligence and carelessness in the office, and swingeing fat profits, to enable the shareholders to draw their dividends and Watts his plunder for so long without bringing the office down in ruins.

Other large-scale finance thieves caught in the act in the middle of last century included Sir John Paul, the banker who was one of the leaders in the Evangelical Party in the Church of England. His banking firm, Strachan, Paul & Bates, failed in 1855 for £750,000, and the three partners, after being proved guilty of embezzlement and forgery, were each sentenced to fourteen years' transportation.

And there was the case of the Royal British Bank, which was started in 1850 and collapsed in 1856. Two M.P. Directors of the Bank, Mr. M'Gregor for Glasgow and Mr. Humphrey Brown for Tewkesbury, appear to have helped themselves on a pretty generous scale to the bank funds. Mr. Brown deposited only the insignificant sum of £18 14s. and on the same day

that he opened his account he borrowed £2000 upon his note of hand. This £2000 grew steadily until it became £70,000. When the institution failed after six and a half glorious years, the shareholders' £158,000 had gone and there were net losses of £250,000 to the depositors, plus the expenses of winding up.

But the maximum punishment meted out to these well-circumstanced banking rogues was only one year's imprisonment.

Then there was the case of John Sadleir, Junior Lord of the Treasury, banker and speculator, rogue and forger, who committed suicide in 1856 at Hampstead. When he crashed, thousands of poor investors and bank depositors inquired anxiously whether there was to be anything left out of the wreck of their savings and investments. But an unknown feudalist calling himself the Lord of the Manor of Hampstead claimed that he, the Manorial Lord, under his old mouldy charters was entitled to all the goods and estates of persons who chose to commit suicide within his territory of Hampstead ! What the financiers had missed, the feudal landowner annexed.

First appearing in 1847 as a Dublin solicitor, M.P. for the borough of Carlow and as agent for many Irish estates, Sadleir seems to have secured large-scale loans upon what, as afterwards transpired, were forged title-deeds. But he was apparently a man of wealth ; he became a specialist in Parliamentary Bills during the railway mania ; and being absolutely trusted by the Irish priesthood, was charged with considerable operations in real estate on their behalf.

In due course he became chairman of the Royal Swedish Railway Company, Director of the East Kent Railway, and joint manager of several others ;

and was selected as chairman of the London County Bank and the Tipperary Joint Stock Bank.

In 1853 (for his Parliamentary promotion was rapid) he was appointed a Junior Lord of the Treasury in Lord Aberdeen's Ministry, and promptly threw overboard his Catholic Church affiliations, they being now a hindrance and not an aid to him.

How his financial defalcations and forgeries first became suspect is not clear, but by the year 1856 he had been publicly exposed as a callous rogue and as a wholesale forger of title-deeds and manufacturer of fictitious shares, and as an utterer of worthless paper money in Ireland. After these exposures he committed suicide. His Tipperary Bank failed for £400,000 ; the Royal Swedish shares which he fabricated were known to amount to £150,000 ; and the sum-total of his defalcations must have been enormous.

But his case is specially interesting in the records of Big Money, neither for the method of his acquisitions nor for their amount, but for what happened to his bank pass-book after his suicide.

At the inquest on March 11, 1856, the Coroner of the Queen's Household, Mr. Manning, appeared and intimated the feudal claim to Sadleir's estates and properties.

This, he said, was a case of suicide and the body was found in the Manor of Hampstead ; by letters patent given by King Edward VI, the Lord of the Manor was entitled to :

' All chattels waived, estrays, goods, and chattels of felons, fugitives, persons outlawed and put in exigent, or in any other manner whatsoever condemned or convicted, felons of themselves and deodands.'

The whole of Sadleir's goods and chattels. and

every right he possessed except his estates of inheritance, declared the Queen's Coroner,

' would go to the present Lord of the Manor of Hampstead within which the body of the deceased was found . . . and these rights would go too, to the exclusion of creditors ' !

And that in all the records of shameless and impudent theft must surely be the very last word. It is unbeatable !

We have already noted the railway finance crash of 1847.¹ Scarcely had its reverberations died away, ere there began another series of banking failures, bringing again in their wake widespread ruin and devastation.

The panic of 1857 originated, so declare the contemporary writers, in the United States ; but our British banks and commercial houses had over-speculated on their own accounts, and when nervousness spread and loans were called in, the whole British edifice went smash again.

The Borough Bank of Liverpool failed with liabilities of £5,000,000, the Western Bank of Scotland with liabilities of £8,911,000, the Northumberland and Durham Bank with liabilities of £3,000,000, the Wolverhampton Bank with a liability of £1,000,000, and the City of Glasgow Bank with liabilities of £6,000,000.

Wednesday, November 11, 1857, was called Black Wednesday, for on that day the City of Glasgow Bank shut its doors, and everywhere commercial houses of long standing and good reputation were intimating inability to meet their debts. In London city, Sanderson, Sandeman & Co. failed for £5,500,000 ;

¹ P. 19.

the Baltic trade collapsed ; many trading houses disappeared altogether, and between September 7 and November 12, as Mr. Disraeli ruefully announced in the House of Commons, eighty-five firms closed their operations with liabilities totalling no less than £42,000,000.

And once again the Bank of England issued notes—this time to the extent of £2,000,000—in excess of its legal limits, in an endeavour to boost trade and stem the financial panic.

The story of the closing forty years of last century is the story of the preceding sixty years already described. Alternating booms and slumps ; crooks with prospectuses of glittering gains to be had from investments at home and abroad ; the savings of thousands of families periodically swept away by cheats and frauds operating as company promoters and investment bankers.

There was, for example, an appalling crash, with widespread misery resulting, in 1866–7, and again it had come in the backwash of a period of extravagant speculation and gambling. The shares of the Great Northern Railway fell in three years (1864–7) from 135 to 104 ; Great Western shares from 78 to 43 ; London and Brighton shares from 103 to 51. In that year the Court of Chancery was blocked with the liquidation of bankrupt companies ; Liverpool was said to be almost cleaned out.

In the late 'sixties, too, further exposures were made of balance-sheet faking by the railway companies ; the accounts of the North British were described by the *Edinburgh Review* as 'receptively manipulated,' the Great Eastern and the Great Western were 'in serious financial straits' ; the London, Chatham, and Dover

was insolvent. Overend, Gurney & Co., the bankers, failed with liabilities of 19 millions. Ruin and devastation swept the land, and for the third time in 23 years the Bank Charter Act of 1844 had to be broken and the Bank of England ordered to issue notes in excess of its legal powers. And again, as in 1847 and 1857, the increased buying-power succeeding in restarting the wheels of trade.

In 1875 Parliament had to appoint a Select Committee, Sir Henry James, M.P. for Taunton, presiding, to inquire into the methods by which our financiers had been giving loans to foreign states. In the three previous years it was estimated that some £60,000,000 of British money had been lost in foreign speculation, and Sir Henry's Committee trailed out a mass of fraud and chicanery in high places in the money market, that shocked—for a time—the simpler-minded British investor.

The Committee examined the circumstances of the issue of four groups of public loans—one group to Honduras 1867–70, one to Costa Rica 1871–2, one to Paraguay 1871–2, and one to San Domingo 1869. All had defaulted and not a single penny of capital, much less interest, had ever been repaid. And, indeed, it was little wonder, for, as the Committee discovered, upon some of the loans the financial promoters in London had netted a commission of 20 or even 30 per cent. for a beginning, ‘*the miserable balances after this being still further attenuated by percentages and charges under every conceivable head.*’ Thus, for every £100 they borrowed some of the States were lucky if they got £60.

Sir Henry James denounced the financial vultures in London as ‘powerful and unscrupulous’ and as ‘a band of conspirators’: in turn they threatened

him politically and financially ; they terrorized the Press into all but suppressing comment upon the evidence before, and the report of, the Committee ; and to this day there is hardly a public library where either evidence or report is upon offer.

The report was smothered, and nothing was done by Parliament to safeguard the investor for the future or to eliminate the panics and crises resultant from the amazing plunder in these foreign loans.

Repeated attempts have been made by our financial houses to secure the aid of the British Navy in collecting their debts, the most glaring case this century being in 1903, when the State of Venezuela defaulted ; the bondholders of Germany, Great Britain, and Italy each brought pressure upon their Governments, and their joint naval forces were soon on the Venezuelan coast ; they sank ships and shelled ports, and, says the staid and sober *Cambridge Modern History*¹ : ' It would have fared ill with Venezuela if the United States had not intervened ' and issued the announcement that no seizure of Venezuelan territory would be recognized by the United States. So the Three-Power Finance fleet had to put to sea again, and the financial grievances of the money-lending houses of Berlin, London, and Rome were settled at the Hague, the *Cambridge Modern History* dryly adding that :

' where tens of thousands were asked for at the cannon's mouth, only hundreds were allotted.'

It is an amazing story that affair on the Venezuelan coast, with British Naval commanders at Puerto Cabella and La Guaira claiming 30 per cent. of the customs receipts for the European investors ; and the Press Association's correspondent in Trinidad

¹ Vol. xii. 695.

sending home hot press messages that Venezuela was 'in sad need of a little chastisement,' and poor Mr. Balfour, our Prime Minister, very shamefaced about it all, explaining to a Liverpool audience that our 'war-like operations' would be 'as absolutely harmless' as possible; and the British and German admirals unable to sail away until they got a cash payment to account, the British accepting £5500 cash down, and the Germans being finally placated with promises of £76,000, which they agreed should be 'paid in instalments.'

And so boom and slump, slump and boom has gone on, decade after decade, the severance of fools from their money. As every fresh crop of small accumulators saved sufficient to invest, and looked around hopefully for some 'certain security' with an adequate interest yield, lo! always there opportunely appeared some plausible leader of finance with a get-rich-quick scheme, casting it before his victims as an angler casts his flies for trout.

Perhaps our most impudent angler for the savings of gullible folk in the closing years of last century was Ernest Terah Hooley.

He was a pioneer of the modern method, and there are few more entertaining and informative volumes than Mr. Hooley's *Confessions*,¹ where the author tells all who care to stop and listen of how the skin game is really played.

He began as a lace manufacturer in Nottingham, branched out into company promoting, and went to London in the year 1895 with a fortune of £100,000, determined to make it a million.

He made his fortune more than a million; indeed, he estimates that at one point in his career it reached

¹ Simpkin, Marshall, Hamilton, Kent & Co.

to seven millions. But that was the peak, and he then slid downwards, went bankrupt three times, and was twice imprisoned for fraud.

His *modus operandi* was to purchase a sound, prosperous company, and refloat it upon the public as a great limited liability concern, securing to himself colossal sums for goodwill, &c.

His first big purchase was the Dunlop Tyre Company, which he bought for £3,000,000, and refloats for £5,000,000, making £2,000,000 on that one transaction. Similarly he dealt with Schweppes, Singers, and the Raleigh Cycle Company. In the years 1896 and 1897, he promoted companies with a combined nominal capital of £30,000,000. 'There was,' he says,

'nothing criminal about these flotations, any more than there is to-day. I bought a business as cheaply as I could, and sold it again for the biggest price it would bring. Some people might say that by this method I robbed the public of millions of pounds, but, nevertheless, I did not do anything against the law.'

Quite so; all perfectly legal. It is the finance business system as operated under the recognized rules.

Hooley boasts that he was the pioneer in the use of noble 'guinea-pig' directors as baits for the investing public. 'When I bought the Dunlop business in 1896,' he says,

'I thought it would be a good idea to have some well-known people on the board, and so I got hold of an Earl, now deceased, and said to him: "Now, look here, I'll give you £10,000 for a Duke, and £5000 a-piece for a couple of ordinary peers. I don't mind who they are, so long as they are fairly well known." "Right you are, my boy," he replied breezily, "It won't take me long to find the people you want."

‘Nor did it. He brought the late Duke of Somerset along and another noble Earl. That was good enough for me. The new company duly came out with its titled directors and was a roaring success.’

Hooley became a member of the most exclusive clubs—the Carlton, the Badminton, and the Royal Thames Yacht among them; was entertained by King Edward at Sandringham; was appointed High Sheriff of Cambridgeshire and Huntingdonshire; presided at the Assizes, and in cocked hat, gold braid, and sword, got himself photographed with Mr. Justice Grantham in his full legal regalia.

One of Mr. Hooley’s most successful publicity expenditures was his gift of a complete gold plate Communion service to the Dean and Chapter of St. Paul’s Cathedral in commemoration of Queen Victoria’s Diamond Jubilee. The gift was accepted, and when the Queen went to offer a thanksgiving for her sixty years of reign, Hooley’s gold plate was used for the first time. The donor hopefully records :

‘Coming events cast their shadows before, and the ticket of admission which was sent to me for the ceremony was made out to Sir E. T. Hooley, Bart.’

But that baronetcy was denied him in the end.

I wonder if the Bolshevik Government of Russia have ever seen these Hooley *Confessions*. If not, they should study that delightful story of the Siberian Goldfield Development Company Ltd., which Hooley floated for £1,000,000 in the year 1900, after his first bankruptcy.

Hooley alleges that he paid £75,000 to the proper gentleman at the Russian Embassy in Chesham Place, London, for the concession. Later the concession was repudiated by the Tsarist representatives, whereupon

Hooley hastened back to Chesham Place, and was informed that, 'difficulties had arisen, but if just a little somethings should come along. . . .!'

Hooley understood, and came along with two bags each containing £5000 golden sovereigns to the Russian Embassy, and all was well, the Press being informed next day that the previous notice repudiating the concession had been due to a 'misapprehension.'

And one wonders if these Hooley Siberian Gold-field Development Shares are included in the list of debts which our Nationals have accumulated against the present Government of Russia.

In his heyday Mr. Hooley kept a suite of rooms, covering practically an entire floor of the Midland Hotel at St. Pancras Station, as his business offices; and Meredith, in his book on *The Drama of Money-Making*, tells us that in these palatial chambers sometimes as much as £500 was paid for an audience with the Great One!

Princes of the blood royal were his intimate friends, and half the nobility of England were trying to cultivate his acquaintance as a means of replenishing their old oak chests. When he first crashed in 1898 with debts of £1,500,000 and assets of £369,000, Hooley's bankruptcy proceedings provided the finest sensation of the year. It was alleged that the blue-blooded aristocrat, leeches had sucked him dry; one fine gentleman who had assisted him in his company promotions had got away with £100,000; and a noble earl who had taken the chairmanship of one of his reconstructed companies had graciously accepted a *douceur* of £25,000 for himself, and had been given £25,000 for distribution among 'the others'—presumably the remaining guinea-pig decorative directors.

In his evidence before the Official Receiver, Hooley said that another peer 'ought to have had half, but I think he did not know what half was.' He declared that he (Hooley) had given £1250 to evening papers so that they 'should not say anything bad' about his companies. When he had formed the Dunlop Pneumatic Tyre Company of France he declared that he had given a noble lord £11,300 for joining the Board, and a cheque for £1000 for 'squaring the newspapers.' When the Singer Cycle Company was formed, he alleged he gave one peer £2000 for introducing another. When he refloated Bovril Ltd., his apparent profit on the deal was £468,000, but, alas! his real profit was only £30,000, so extensive were his expenses and procuration fees; as an illustration of his costs, he declared that two of the old Bovril directors had insisted upon receiving £35,000 each.

Hooley had been elected to the Carlton Club in 1896, and he told the Official Receiver that he had paid a gentleman called Sir William Marriott a commission of £1000 for aiding or securing his election. This reason for the £1000 cheque was later hotly denied in the witness-box by Sir William, who declared that the money was really payment for other business services.

But there seems to have been no dubiety about the acceptance by Lord Abergavenny of two Hooley cheques of £5000 each for the Tory Party war chest.¹ And Hooley further testified that he had offered £35,000 for a baronetcy, but had been told that the matter could really not be arranged for less than £50,000.²

There is a story half-told in the *Hooley Confessions*,

¹ *Times* report, 3/11/98.

² *Times*, 15/11/98.

and half-told in the Bankruptcy Court, of how Li Hung-Chang in China sought to borrow sixteen millions sterling from Hooley. Li wanted the money to crush a revolution which was brewing in China, and in return he was prepared to give Hooley and his syndicate (The Hooley-James group) a complete monopoly of the Chinese cotton trade.

The Rothschilds and the Barings were furious at this interference with their preserves, and apparently they brought strong pressure to bear upon the Foreign Office to have the Hooley-Chang deal prevented. Finally Hooley was informed that under no circumstances need he look to the British Government to guarantee the security of any loan he might give to China. In this Hooley-Chinese cotton syndicate Lord Ashburton had 30,000 shares; but the one Chinaman who was a member of the Board—to give the thing a realistic touch—had to be content with 5000. And there was a speculator called Hill, who apparently did not come well out of the business, as Mr. Hooley later testified, with engaging frankness, in his bankruptcy proceedings.

‘He received £10,000 for 500 shares from Mr. Hill. The result of the deal was that Mr. Hill received the shares, and he received the cash.’

And that was Hooley company-promoting defined, with brevity, with concision, and with comprehensiveness, by the Great Master himself! It is more than Hooley company-promoting; it is company-promoting in general: the finance-business system by which clever men relieve less clever men of their cash and credit reserves. Mr. Hooley’s distinctive contribution to High Finance in this country lay, if I may use a mixture of metaphors to describe it, in the lavish mani-

pulation of aristocrat guinea-pigs as ground bait to attract fools and their money. He drew up glowing prospectuses, and always took care to plaster the front page with the names of peers and baronets whom he had induced to allow their names to be used as directors ; thus was secured the atmosphere of solidity and safety necessary when investors are parting with their cash.

Mr. Hooley's precise and definite public allegations at his first bankruptcy as to the fees exacted by some of the aristocrat directors were naturally resented by the noblemen concerned. The *Annual Register* for 1898 records that there 'ensued a shower of indignant disclaimers, many absolute, some partial, and some qualified.'

One gentleman was

'proved to have made him (Hooley) an indirect offer of money contemporaneously with an endeavour to obtain a modification of his evidence, in such a fashion as to persuade a Judge that he had committed the offence of contempt of Court.'

And it may be as well to place upon record what *The Times* said in its review of the year (31/12/98) :

'Several of these denials came to no more than this—that So-and-so had not received £10,000 for joining the Board, but that soon after he had joined it Mr. Hooley made £10,000 for him over a deal.'

Hooley himself worried little about the bankruptcy, declaring that, 'Life went on with me after my smash pretty much the same as before,' and '*This matter of going bankrupt is something that requires a little closer attention than it has received in the past. To a Financier such as myself it is not a bad idea almost once every ten years to have a thorough clean up.*'

This *sang-froid*, this cynical, easy, almost unconcerned attitude to the great finance scandals of 1898 was more than the victims and their friends could stand, and on November 9, 1898, Lord Russell of Killowen, then Lord Chief Justice, addressed some stinging observations on commercial morality to the City of London. He told the City that financial fraud was '*rampant . . . fraud of a most dangerous kind, widespread in its operation, touching all classes, involving great pecuniary loss to the community, loss largely borne by those who are least able to bear it.*'

He spoke of one case where a property alleged to have been on the West Coast of Africa was sold for £48,000, when, in fact, there was no such property in existence ; but how, after the sale had been effected, an agent was sent out to buy a property for £140 from a native chief which was supposed to answer a description of, and take the place of, the property which had already been sold for the £48,000. He told of another flotation of a business bought for £637, and sold to the public as a company for £76,650.

But the storm blew past, and Hooley lived through another two bankruptcies, and a prison sentence of three years, after what was commonly called the 'Jubilee Mills Fraud.'

Hooley was the company promoter *par excellence*. He never troubled himself about the subsequent management of the companies he promoted. 'I floated them,' he said, 'got what I could out of them, and let some one else nurse the baby.' And after he came out of prison for the Jubilee Mills case he wrote :

'Most people will have forgotten the astonishing boom that took place in cotton mill shares immediately after the War.'

‘Several people, with no more pretensions to honesty than myself, made millions of pounds, selling mill shares which were not worth a shilling apiece. But in Lancashire they fought like madmen to buy them. Mills worth £10,000 were refloated with a capital of £200,000, and the lunatics who bought the shares on this basis took it all lying down when the inevitable crash came.

‘I suppose fully £10,000,000 was lost in this cotton boom. If everybody had their deserts there would have been a hundred other men put in prison.’

What a system ! What a method of conducting a great industry upon which the lives and fortunes of hundreds of thousands of poor folk depend !

CHAPTER VI

USURY ON THE GREAT WAR

‘The investing public have been pandered to in a manner altogether out of keeping with the times. . . . Victory can be purchased at too high a price.’—*Glasgow Herald* (4/10/16).

‘The Imperial Democracy that held all the world beneath its sway, from the senators who bore historic names down to the humblest tiller of the soil, from Julius Caesar down to the smallest shopkeeper in a back street of Rome, was at the mercy of a small group of usurers.’—Ferrero, *Greatness and Decline of the Roman Empire*, vi. 223.

WHEN the whistle blew for the start of the Great War in August 1914 the Bank of England possessed only nine millions sterling of a gold reserve, and, as the Bank of England was the Bankers’ Bank, this sum constituted the effective reserve of all the other Banking Institutions in Great Britain.

The bank managers at the outbreak of War were seriously afraid that the depositing public, in a panic, would demand the return of their money. And, inasmuch as the deposits and savings left in the hands of the bankers by the depositing public had very largely been sunk by the bankers in enterprises which, at the best, could not repay the borrowed capital quickly, and which in several and large-scale instances were likely to be submerged altogether in the stress of war and in the collapse of great areas of international trade, it followed that if there were a widespread panicky run upon the banks, the banks would be unable to pay

and the whole credit system would collapse, to the ruin of millions of people.

Private enterprise banking thus being on the verge of collapse, the Government (Mr. Lloyd George at the time was Chancellor of the Exchequer) hurriedly declared a moratorium, *i.e.* it authorized the banks not to pay out (which in any event the banks could not do), and it extended the August Bank Holiday for another three days. During these three or four days when the banks and stock exchanges were closed, the bankers held anxious negotiation with the Chancellor of the Exchequer. And one of them has placed upon record the fact that 'he (Mr. George) did everything that we asked him to do.' When the banks reopened, the public discovered that, instead of getting their money back in gold, they were paid in a new legal tender of Treasury notes (the £1 notes in black and the 10s. notes in red colours). This new currency had been issued by the State, was backed by the credit of the State, and was issued to the banks to prevent the banks from utter collapse. The public cheerfully accepted the new notes ; and nobody talked about inflation.

Not since 1697 had the State itself issued paper money. In that year, 1697, notes in the denomination of £5 were issued direct to the public without the intervention of the finance houses ; and these notes were not backed by gold but were legal tender for the payment of taxes. In 1914, however, the State issue of money was upon a colossal scale ; the legal tender was not limited to the payment of taxes, but was complete for all purposes, and the issue was made with the goodwill of the bankers and indeed at their plea and intercession. Had that new money not been issued, the private banking houses of Britain would have been

compelled to default to their creditors in a week's time. Dr. Walter Leaf, late Chairman of the Westminster Bank and an ex-President of the Institute of Bankers, has enlightened us as to the real effect of the issue of Treasury notes under the Currency and Bank Notes Act of August 6, 1914.

*'The amount and manner of the issue,' he declares, 'was left to the absolute discretion of the Treasury. This was essentially a War Loan, free of interest, for an unlimited period, and, as such, was a highly profitable expedient from the point of view of the Government.'*¹

He proceeds to argue that, to some extent, this State issue of Treasury notes was covered by the gold coinage which patriotic people exchanged for the notes ; but there was no provision whatever in the Currency and Bank Notes Act of 1914 for any gold backing, and, in any event, the amount of gold coin reserved for pretended security against Treasury notes totalling some three hundred million pounds was, at its maximum, only twenty-seven million pounds. The three hundred million of new money issued by the Treasury in 1914 was therefore, in effect, a War Loan, free of interest. But, alas, when the War was over, the Treasury, by a Minute issued on December 15, 1919, announced that its policy was to be a gradual reduction in these Treasury notes ; and it proceeded year by year to take the notes off the Market, on the plea that the notes so cancelled were not covered either by gold or by Bank of England notes. Between the years 1920 and 1926, there was a progressive reduction in Treasury notes from £320,600,000 to £246,902,500.

¹ *Banking*, by Dr. Walter Leaf, Home University Library, p. 46.

To return, however, to the early war period, no sooner had Mr. Lloyd George got the bankers out of their difficulties in the autumn of 1914 by the issue of the Treasury money, than they were round again at the Treasury door explaining forcibly that the State must, upon no account, issue any more money on this interest free basis ; if the war was to be run, it must be run with borrowed money, money upon which interest must be paid, and they were the gentlemen who would see to the proper financing of a good, juicy War Loan at $3\frac{1}{2}$ per cent. interest, and to that last proposition the Treasury yielded. The War was not to be fought with interest-free money, and/or/with conscription of wealth ; though it was to be fought with conscription of life. Many small businesses were to be closed and their proprietors sent overseas as redundant, and without any compensation for their losses, while Finance, as we shall see, was to be heavily and progressively remunerated.

As each war loan became exhausted the lenders upon the first lower interest War Loans were permitted to transfer into the later higher interest Loans, and usurers' interest upon credit was added to the national burden, so that to-day that burden is insupportable and the nation staggers along, cutting the bread and cheese of its poor, and starving the social services in a vain attempt to meet the charges incurred in the Great War Loan ramps.

The report of the Cunliffe Committee (1927) relates the story of the progressive piling up of our War Debt burdens.¹

But it is in nowise a complete *chronique scandaleuse* of usury in war-time ; nor did its authors so intend

¹ Appendices to the Report of the Committee on National Debt and Taxation (1927), p. 18 *et seq.*

it to be. We find in its pages no reference to or hint of the magical process by which, while the nation struggled almost at death's door for its very existence, and while masses of the fittest of our manhood were daily being blown into bundles of bloody rags, our banking fraternities continued to create for themselves a great volume of new credit and to lend that credit to us at interest, and indeed at progressively increased interest ; no reference to the fact that by this manufacture of bankers' credit some portion, variously estimated in amount, of what now stands as the public debt, was simply fabricated for private ends and was not a bona-fide loan of real wealth to the nation. Professor Soddy has estimated that the bankers actually created £2,000,000,000, no less, of this bank credit, and lent it out to us at 5 per cent.¹ That means £100,000,000 a year upon nothing.

The first War Loan at interest was floated in November 1914, at $3\frac{1}{2}$ per cent., and the investors were only required to subscribe £95 for each £100 of scrip. The total amount of the loan was £350 millions, but as there were not three hundred and fifty millions of money in the country, what the State received was credit—the pledged credit of individuals and corporations and banking houses (the same banking houses which, as we have seen, three months earlier had been begging the Treasury notes on loan from the Government to save their precious banking system from bankruptcy).

The second War Loan was issued at par in June 1915 at $4\frac{1}{2}$ per cent. interest ; and such investors, and corporations and banking houses as had held the previous War Loan Stock at $3\frac{1}{2}$ per cent. were permitted

¹ Soddy, *Wealth, Virtual Wealth, and Debt* (Allen & Unwin Ltd.), p. 195.

to transfer into the new loan at the increased rate of interest.

Actually of the $4\frac{1}{2}$ per cent. Loan the sum of £176,000,000 was not new loan money at all, but was a considerable portion of the old $3\frac{1}{2}$ per cent. Loan silently 'jumping the counter' on to the higher rate. And, in addition to that, the holders of no less than £138,000,000 of the new $4\frac{1}{2}$ per cent. Loan were old holders of $2\frac{1}{2}$ per cent. Consols and $2\frac{1}{2}$ per cent. and $2\frac{3}{4}$ per cent. Annuities, who also had been permitted to transfer into the higher rate of interest yield. These conversions at the higher rate of interest meant a clear gift of at least £4,000,000 a year in extra interest to the money-lenders.

But the story of this great finance ramp of June 1915 is incomplete without a reference being made to the pledge extracted from the State by the finance houses and banks that, should there be any subsequent issue of War Loan at a still higher rate of interest than $4\frac{1}{2}$ per cent., the holders of the new $4\frac{1}{2}$ per cent. Loan (£901,000,000 in amount) would be entitled to convert at a higher scale, and this, as we shall see in a moment, the great bulk of them succeeded in doing.

Mr. Lloyd George has publicly declared that the increased rate of interest offered in the War Loan of June 1915 was quite unnecessary. He says:

' Looking back, I cannot help regretting that Mr. McKenna should have thought it necessary to raise the interest rate of a Government loan to $4\frac{1}{2}$ per cent. Maybe this corresponded to the price that was being offered for other gilt-edged securities. But in view of the increase in our nominal capital reserves due to war inflation and to the restriction of an overseas market for investment money, which was also one of the effects of the War, there can be little doubt that the Government could have continued to obtain as much money as it required by

voluntary investment, without raising its interest rate beyond the level of $3\frac{3}{4}$ per cent. at which my first loan had been negotiated. Investors would have had to take this, for lack of an alternative. And if they had been unwilling to do so, there would have been a clear and popular ground for the conscription of capital for war purposes—a step which would have been an appropriate corollary to the conscription of man-power which we were soon to introduce.’¹

We must note another, even more amazing and more impudent, of the methods of debt and interest concoction in these delirious war-times. The banks actually issued circulars to thousands of their customers inviting them to apply for a portion of the new War Loan and to borrow credit from the banks for that purpose at 3 per cent. The customer was to put up no money for his War Loan, no margin, no securities. The bank was to supply the credit, or rather was to back the customer’s credit and was to charge the customer 3 per cent. interest for so doing ; but the State was pledging itself to pay $4\frac{1}{2}$ per cent. interest on the War Loan which the customer was purchasing with his 3 per cent. money. The customer, after allowing for his Income Tax, &c., was clearly 1 per cent. per annum in pocket on the deal.

It is indeed difficult to write in cold blood of these financial dodges, arranged between the City and the Treasury and committed upon a nation *in extremis*. In March 1916 the Bank of England, without any apparent sense of shame, issued press advertisements which ran :

‘ IF YOU CANNOT FIGHT ’

‘ If you cannot fight, you can help your country by investing all you can in 5 per cent. Exchequer Bonds. . . . Unlike the soldier, the investor runs no risk.’

¹ *War Memoirs of David Lloyd George*, vol. i. p. 122.

Yet all these efforts surely paled before the shameless greed of the third great War Loan in January 1917. No foreign conqueror could have devised a more complete robbery and enslavement of the British Nation. The rate of interest in War Loan was jumped to 5 per cent. (or at the option of the investor, 4 per cent. free of Income Tax until October 1942) and the holders of previous War Loans and Treasury Bills and War Expenditure Certificates were invited to come in and convert their old stock into the higher rates of booty, and for each £100 of Stock in the new loan, only £95 had to be subscribed, so that the rate of interest really had been raised to $5\frac{1}{3}$ per cent. Into this 5 per cent. War Loan tumbled the holders on £820,000,000 of the $4\frac{1}{2}$ per cent. Loan, thus securing an extra $\frac{1}{2}$ per cent. or £4,000,000 in addition to the increases which many of them had secured when the rate of interest was previously jumped from $3\frac{1}{2}$ per cent to $4\frac{1}{2}$ per cent. And not only were the $4\frac{1}{2}$ per centers permitted to convert into the 5 per cent. War Loan, but the holders of £130,000,000 of Treasury Bills and £280,500,000 of Exchequer Bonds also converted. The new 5 per cent. Loan of £2,075,750,000 secured only, in fact, £844,750,000 of new loans, the balance being paper conversions from old lower interest Stocks, whereby the converters were enabled to dig deeper into the national pocket than they had hitherto done.

But that was not the sum-total of the iniquitous ramp which the lackeys of the money interest imposed upon us with the 5 per cent. Loan of 1917. The investors were made exempt from all British Income Tax upon their interest payment if they chose to go and live abroad. Mr. Lloyd George has himself testified

that this 5 per cent. Loan was raised at 'a penal figure,' and he continues :

'The same rate governed subsequent borrowings, which by the end of the War had added a further £4,000,000,000 to our National Debt. It cost the country a dozen years of remorseless deflation and concomitant depression to bring interest rates down again to a level that would enable this vast sum to be reconverted to 3½ per cent. Throughout the interval, not only was the country taxing itself to pay a sum ranging at one time as high as £100,000,000 a year more than it would otherwise have done, but the high yield of a gilt-edged Government security kept up rates all round, and made money dearer for all enterprises, industrial, commercial, and national. It would be hard to estimate the sum-total of the price paid by the nation in every department of affairs for the decision of Mr. McKenna in 1915 to increase the rate of interest paid by the Government on its war-time borrowings. His action had, no doubt, the fullest authorization from the leading circles of banking and finance. But the country has since then had ample evidence that these circles are by no means to be reckoned as infallible advisers.'¹

The 4 per cent. Tax-Free Loan of 1917 provided a similarly convenient cloak for an increased tribute to the money-lending interests. If that loan be examined it will be found that out of a total loan of £52,000,000, over £30,000,000 was conversion from previously issued and less attractive interest-rated stocks.

But even in these hectic days there were stray warnings in the capitalist-owned press that the money maniacs were overdoing it. While the *Financial News* gleefully and recklessly cried : '*Money is at last coming in to its own!*' the more sober *Glasgow Herald* (May 1916) was declaring that :

'rates of interest have been raised and concessions made until people have come to regard the giving of money for the

¹ *War Memoirs of David Lloyd George*, vol. i. p. 123.

prosecution of the War, not as a patriotic duty, but as a profit-making medium ; this spirit is becoming so pronounced that we have reached the stage when capital is deliberately withheld in the hope that the Treasury will ultimately offer better terms. As we have said, the Government has fostered this spirit by its system of legalized bribery.'

And again :

' The investing public have been pandered to in a manner altogether out of keeping with the times. If the process is continued much further it may well be that victory can be purchased at too high a price. . . . It has been said, and not without truth, that it is easier to find men willing to risk their lives than to find capitalists willing to risk their money, unless at a high price.' ¹

The *Daily Telegraph* made no bones whatever about it. War Loan Investment was, it advised its readers, no sacrifice, but a ' golden opportunity ' and a ' certain gain.' The distressed *Glasgow Herald* protested of the 1917 War Loan that ' It is not helping us at all to prosecute the War.' And in June 1917 *The Nation* declared that

' a huge proportion of the money loaned to the Government is inflation representing no real savings on the part of the bankers and financiers who have manufactured it themselves. This means that when the War is over . . . the propertied men in this country will be several thousand million pounds the wealthier.'

And now we have the indisputable testimony of Mr. Lloyd George, the war-time Prime Minister, that from 1915 onwards the country has paid annually huge unnecessary sums in War Loan interest, rising to as high as £100,000,000 per year.

¹ *Glasgow Herald*, 27/5/16 and 4/10/16.

By January 1917 the position was that

£176,000,000 of the loan issued in November 1914 at $3\frac{1}{2}$ per cent. had been, in the year 1915, gradually raised to $4\frac{1}{2}$ per cent.

£138,000,000 of $2\frac{1}{2}$ per cent. and $2\frac{3}{4}$ per cent. pre-War loans had been gratuitously raised to $4\frac{1}{2}$ per cent. in the year 1915.

£820,000,000 of $4\frac{1}{2}$ per cent. money (including presumably the two conversions above noted totalling £404,000,000—already raised to the rate of $4\frac{1}{2}$ per cent.) were gradually further raised in 1917 to 5 per cent.

£130,000,000 of Treasury Bill money and £280,500,000 of Exchequer Bond money had also converted from lower rates into the higher 5 per cent. interest rate.

If we accept $3\frac{1}{2}$ per cent. the outbreak-of-war rate for money—and that is Mr. Lloyd George's figure—as the normal and non-profiteer rate, then these successive bribes down to 1917 meant, upon the most conservative computation, a net increase of £30,000,000 per annum in the nation's toll to its money-lenders. Nor does the fact that in the year 1932 part of this money was reconverted to a $3\frac{1}{2}$ per cent. rate, disguise, in the slightest degree, the shameless money ramps that were permitted for seventeen years onwards from 1915.

Whoever else made economic sacrifices during the War, the *rentier* class, as a class, did not.

The man who invested £10,000 in British Government Stock before the War would have received interest of £325 per annum. By October 1915 he would have received £450 per annum. After allowing for the increased Income Tax from 1s. 3d. to 3s. 6d. per

£1, he was in 1915 better off by £67 per annum. And while the Income Tax rate rose in subsequent years, so too and more, did the war loan interest rise to meet it. For example, the man with £100,000 sunk in Consols in 1913-14, earning $2\frac{1}{2}$ per cent. got £2500 of an investment income. Upon this sum he had to pay Income Tax and Super Tax amounting to £137, 1s. 8d., leaving him with £2362, 18s. 4d. In 1918-19 the same man with his £100,000, by that time yielding 5 per cent., or £5000, would pay from his £5000 an Income Tax and a Super Tax amounting altogether to £1787, 10s., leaving him with £3212, 10s., or an increase in his net income of £849, 11s. 8d. after paying his taxation. It is true, of course, that this man's death duties had increased as also had his local rating and his cost of living, but these charges had equally increased for other classes whose income was not secured upon the national taxes.

In post-War years there appears another form of money-lending to the State—to which attention must be drawn—the form known as Savings Certificates. These Certificates have had various interest yields, usually, however, running about 4 per cent. per annum, and each investor is authorized to hold as many as 500 certificates and is exempted from all Income Tax upon them. By this method a man, his wife, and say five of a family may each hold 500 certificates, or a sum-total of £3500 upon which all Income Tax is evaded on the interest yield.

By June 1919 we came to what was gleefully described as the Joy Loan. The rate of interest was nominally 4 per cent., but the investor had only to pay £80 for each £100 of stock, so that the yield was 5 per cent., and holders of the previous $4\frac{1}{2}$ per cent. War Loan, various Exchequer Bonds, and the first

three series of National War Bonds were accepted at par. The total issue of the loan was £409,000,000, but £120,000,000 of this sum was simple conversion from a lower rate of interest and really meant an annual increase of over half a million sterling for the taxpayer to meet in interest. More important, perhaps, was the proviso that fixed these rates until the year 1960, so that although, as the *Manchester Guardian* sapiently observed, the interest rate for money might fall after the War, the nation would be tied up to the rate of 5 per cent., and this, indignantly declared the *Guardian* :

‘will mean a gift of thousands of millions of pounds unearned increment to the investor out of the taxpayer’s pocket . . . from the point of view of the English people this is the most burdensome and vicious loan in English History.’ ¹

And the comment of the *Nation* (Radical) ² was no less indignant :

‘To find large numbers of these men and their ill-gotten money planted permanently on their country and sucking each year an interest higher than that paid to current thrift will act, we feel sure, as a dangerous social irritant in the body politic.’

The Joy Loan, moreover, was made more joyous still by a clause decreeing that stock costing £80 was to be accepted in payment of Death Duties as if that Stock were the equivalent of £100—a clear gift of over 17 per cent. to the heirs of the patriotic lenders.

The Victory Bonds (£100 Bonds for every £85 and an interest rate of 4 per cent.) issued at the same time raised £359,500,000, of which £71,500,000 was simple conversion from lower interest-yielding War Loans.

The few isolated protests against these proceedings went unheeded, and year after year the Financial

¹ *Manchester Guardian*, 13/6/19.

² *Nation*, 21/6/19.

Interests openly looted additional millions from the National Treasury. When in the summer of 1921 a load of National War Bonds was being converted into an additional burden to the State, *The Times* was constrained to utter a solemn protest and warning. Under the heading of 'Financial Folly' its leading article declared that :

'There is being enacted before our eyes at this moment a most extraordinary performance in finance : and yet the spectacle seems visible only to a few . . . the Government . . . offering holders of £632,000,000 of 5 per cent. National War Bonds an opportunity, quite unsought, of exchanging each £100 into amounts of $3\frac{1}{2}$ per cent. Stock, varying from £160 to £163.¹ In other words, they are being asked to receive from the taxpayer £4,000,000 more in interest and between three and four hundred millions of additional capital when the loan is redeemed.'²

By this time saner elements in the City had come to the conclusion that the limits of interest raising and capital conversion into increased plunder of the national debt had, at last, been reached. The public would stand no more of it. Yet new vistas of profit opened up to the *rentier* class when Wall Street and London City agreed to begin a policy of price deflation. The idea was that the bankers were to call in loans and overdrafts : they were to compel manufacturers to throw their goods hurriedly upon the markets so as to raise cash for the repayment of their bank loans. At the same time the Government were to throw their surplus War Stores in clothing, &c., upon the markets, thereby intensifying the glut in the markets and making a fall in prices inevitable. As the prices of consumable goods fell, wages were to be broken.

¹ This refers to the first Conversion Loan, 1921.

² *The Times*, 13/5/21.

But while prices were to crash the rates of War Loan interest were fixed, and the bankers foresaw that every fall in the price of potatoes and wheat and cheese and boots and coal would mean that War Loan interest would be able to purchase increasing quantities of these commodities. If prices, let us say, fell by half, the value of interest would be doubled. *In other words, a fall in prices by half would double the value of the War Loans. As the nation would pay off the loans or meet the interest upon the loans it would require to yield up double the quantity of consumable wealth to the money-lending class.*

Mr. Bonar Law early saw the alarming possibilities of this new financial policy, and bravely warned the House of Commons of what it would mean to the taxpayer and the National Debt. 'We had borrowed,' he said, '£8000 millions; we should probably require to pay £16,000 millions.'¹ Sir Henry Strakosch has estimated that the fall in prices during the four years 1925-8 added silently no less than £1,300,000,000 to the capital value of the National Debt,² and Mr. J. M. Keynes has declared that a fall in prices to pre-War level (and some prices are already below pre-War level) would make the British National Debt 40 per cent. greater than it was in 1924, and double what it was in 1920.³

Nevertheless, this policy of deflation and price and wage deduction, with its appalling social consequences in poverty and unemployment, was relentlessly pursued. And not until 1932 did any British Government even pretend to set a limit to the toll of the money-

¹ *Hansard*, 2/5/22.

² Supplement to the *Economist*, 5/7/30.

³ The *Nation*, 20/12/30. The policy of deflation has of course a similar effect upon municipal debt, feu duties, and all forms of fixed money contracts.

lenders. In that year the Treasury, reversing the policy it had consistently buttressed since 1915, appeared with a loan conversion scheme which reduced the rate of interest upon £2,000,000,000 of Government Stock.

The scheme, however, was voluntary; five per-centers were invited to exchange into a new $3\frac{1}{2}$ per cent. loan to correspond with the rate for money prevailing in 1932; but the appeal had to be sweetened with a bribe of cash down to be paid immediately to those who would accept the new terms; and even so, the 5 per cent. rate of interest had to be paid until December 1932.

The bribe, in fact, cost £20,000,000, or nearly a year of the saving to be derived from the Conversion Scheme. And the bankers insisted upon receiving a fee of 5s. per £100 for rubber stamping any application for Conversion Loan which went to the State through their hands.

Doubtless there were many millions of money lent patriotically to the State, money whose owners were disturbed and ashamed at the profiteering in finance which made riot during and after the War. The Rt. Hon. Stanley Baldwin, for example, who was Financial Secretary to the Treasury, and saw at first hand the roguery and ravenous greed of Finance while the Nation was *in extremis*, anonymously handed over £150,000, representing 20 per cent. of his fortune,¹ to the State to clear his conscience, and to set an example.

But the controllers of the Money Power, the men who cold-bloodedly raised their demands upon their fellow-countrymen with every German advance in the field and with every German U-boat campaign at sea; the men who organized the creation of hundreds of

¹ *Encyclopaedia Britannica*, ii. 986.

millions of unnecessary debt, the men who inflated rates of interest ; the men who, as the price of providing credits to free us from the threat of German slavery, enmeshed us in an interest burden of a million pounds *per diem*—it is they whose war-time plunderings I have sought to record in the foregoing pages. The machinations of the organized Money Power during the stress of war surely provide the most convincing of evidence that the nation must be the sole creator of money, and the guardian and banker of the savings and thrift of its citizens, if well-being and security are ever to be the common lot of men.

CHAPTER VII

POST-WAR 'PROSPERITY'

'And I shall be delighted to learn who,
Save you and yours, have gained by Waterloo.'
—LORD BYRON, 'To the Duke of Wellington.'

'We have restricted credit, we have restricted opportunity, we have controlled development, and we have come to be one of the worst ruled, one of the most completely controlled and dominated Governments in the civilized world—no longer a Government by free opinion, no longer a Government by conviction or the vote of the majority, but a Government by the opinion and the duress of small groups of dominant men.'—President WOODROW WILSON (U.S.A.), *The New Freedom*.

WHEN the War began, the belligerent nations carried national debts amounting to £5,775,000,000. When the War ended these same belligerent nations carried national debts amounting to £40,000,000,000.

In so far as the British National Debt was concerned, the gentlemen of the City had a cheerful and half-witted formula with which they airily disposed of it ; *Germany would pay !* In 1919 a Reparations Commission under the Chairmanship of Mr. Hughes, the Prime Minister of Australia, advised Mr. Lloyd George that Germany could and should pay £24,000,000,000. Two years later this figure was cut by half. In 1922 the London Agreement reduced it to £6,600,000,000. In 1924 the bankers and financial pundits, led by General Dawes, reduced the figure still further. Then in 1929 the so-called Young Plan reduced it to £1,700,000,000, or one-fourteenth of the original

lunacy, and despite the fact that the victorious powers—or some of them—have lent the Germans all the wherewithal to pay what reparations they actually have paid, even the limited Young Plan payments are now suspended *sine die*. There is a stand-still agreement in operation, and in operation permanently. The farce is over. Not the craziest backbencher in Parliament to-day could be induced to raise a cry for a penny of reparations; and the slogan of 'Make Germany pay,' which, with its ally, 'Hang the Kaiser,' won the General Election of 1918 for the hard-faced men who had done well out of the War, is now dead, stone-cold dead.

But in 1919-20 the geniuses who control our monetary affairs drifted, gaily and light-heartedly, into a great Stock Exchange boom, the wildest and most reckless in our history. The Germans, they thought, were going to wipe out our debts for us. Prosperity had come round the corner.

It was true that the German Mark had fallen in 1919 from 1s. to 1d., and that the Italian lira was only at half its pre-War value; but Germany and Italy were far away, and, anyhow, we had won the War, and the Labour Party had been smashed at the polls, and happy golden days had come—how, they knew not, and cared less—for the gamblers upon the stock and share market. Speculative shares rose from 100 points in 1918 to 145 points in 1919. Fortunes were for the lifting in Change Alley. Yet these stock market speculators were mere puppets on the end of a string manipulated by the secret banking camarilla which rules the world.

The investment boom of 1919-20 was due—and demonstrably due—to banking policy.

Let us compare the new capital issues in Great

Britain for the years 1920 and 1913, and observe the extraordinary increase in the flotations for the home market.

NEW CAPITAL ISSUES.

	1920.	1913.
<i>For the United Kingdom</i> . . .	£328,000,000	£36,000,000
„ <i>British Possessions</i> . . .	£31,500,000	£76,000,000
„ <i>Foreign Countries</i> . . .	£7,750,000	£84,250,000

Why should there have been so marked an increase in the demand for new capital in British enterprises as between the years 1913 (£36,000,000) and 1920 (£328,000,000) ?

The answer is that in 1919-20 the banks had begun to squeeze the industrialists for repayment of overdrafts and loans ; and the industrialists, the borrowers, in order to repay the banks, invited Mr. Simple-Man-in-the-Street to subscribe to new flotations.

In other words, the great Stock Exchange boom of 1919-20 was not an indication of prosperity at all, but was in large measure a transferring of the financial obligations and loans, hitherto carried by the banks, to the Trust Funds and the widows' mites of the subscribing and investing public.

The staid and impartial record of historical fact in the *Annual Register* for 1920 has it that—

‘ Bankers pressed traders and manufacturers for the repayment of overdrafts, and they obtained the money to do so from the public.’

Precisely ! Their policy could not be more succinctly described.

More in detail, the *Sunday Chronicle* in January 1921 recounted how, six months before,

‘ The big New York bankers had a talk, and they decided that wages must come down. They discussed the matter with the

banking mandarins on this side. Then began a campaign of calling in all credits, of refusing loans to commercial enterprises. The petrol was cut off.

And hence, the new companies looking for money from the general public ; and the new crop of baby-holders advertised for and secured ; the why and wherefore of the Stock Exchange boom of 1920. Bankers generally unloaded their industrial risks upon the general public ; but immediately the new companies were floated to pay out the bankers' overdrafts the bogus 'prosperity' was abandoned.

In the autumn of 1920 prices were already tumbling down ; companies unable to secure fresh capital sold off their stocks at sacrificial figures—indeed, at any figures, in order to secure money to repay the banks ; other concerns unable either to float new issues or sell stocks, simply crashed without more ado.

Between April 1920 and December 1920, *The Times* index number for the price of materials fell from 339 to 207 ; the new investing class discovered that their share script was progressively diminishing in value day by day ; industry slowed down ; unemployment by the million became a fixed feature of our civilization ; the nation found itself reaping the first-fruits of the bankers' policy of deflation.

Never was there a monetary policy that brought so great misery to our world. The bankers called in their loans : they compelled manufacturers to sacrifice their stocks hurriedly : they glutted the markets and they broke prices : they broke wages : they paralysed industry and brought hunger and want to hundreds of thousands of homes.

The Times indices of commodity price movements show that whereas in April 1920 prices stood at 352·9, they had fallen by the end of December 1921

to 162·1. A price collapse of over half in twenty months' time !

In the year 1920 railway shares fell 17·3 per cent. ; Iron and Steel shares fell 33·7 per cent. ; Shipping shares fell 21·7 per cent. Of the next year, 1921, the *Annual Register* declared :

' Not for a hundred years has British finance and commerce experienced such a disappointing year. . . . It was a period of unrelieved gloom.'

The recorded failures of business firms showed :

1920, 2286 ;
1921, 5640 ;
1922, 7636.

The *Annual Register* for 1921 is careful to explain that, in addition to the scheduled list of business failures, there were 'enormous amounts' of credit, which had been given by the banks and financial houses to business firms, and which had become simply irrecoverable. But they could not make omelettes without breaking eggs, and in the great campaign to raise the value of money, and lower the value of goods, risks here and there had to be taken. At any rate, the gains would vastly exceed the losses.

It was not 'policy' (*sic* !) meanwhile to allow too many borrowing firms to crash ; when better times came and prices rose a little, the banks would then permit these shaky firms to fall naturally into the bankruptcy courts.

And, concluded the *Annual Register*, naively

' many cases of insolvency will not be allowed to come to light until the losses involved have been somewhat reduced.'

First, then, there was the boom, and the recapitalization and the watered stock, and the bonus shares ;

the small investors tumbling over one another to buy shares at high prices. And secondly, when the requisite proportion of the new capitalizations and watered stocks had been safely unloaded upon the simpler citizens, hey, presto ! deflation began, prices and wages down with a rush, dividends reduced, and the small investor compelled to peddle his shares in a rapidly falling market !

CHAPTER VIII

HOW FARROW'S BANK FELL

‘ That which the palmer-worm hath left hath the locust eaten ; and that which the locust hath left hath the canker-worm eaten ; and that which the canker-worm hath left hath the caterpillar eaten.’—JOEL i. 4.

AMONG the earlier victims of the deflation storm was the concern known as Farrow's Bank, the collapse of which brought ruin to thousands of poor but credulous depositors (who had been looking for 7 per cent. interest with security), and the trial and imprisonment of the two leading controllers of the bank.

Mr. Farrow had started the bank in 1904 with a capital of £27,000 ; it had survived for 16 years, and during the period it had paid interest rates of from 6 to 7 per cent. to depositors, and at the date of its collapse it had collected some £4,000,000 of the savings of small investors who were eager for the promised heavy interest upon their deposits.

To this class of dupe, directors of the bank laid skilful siege. They issued a magazine called *Farrow's Bank Gazette*, which, in the light of subsequent disclosures in Court, was surely the last word in impudent duplicity.

Every other month there was an article by a Conservative M.P. attacking State and Communal activities, and in the leading articles we find such booby-trap stuff as :

‘ We have had a record year. . . . The once despised Ishmael of the banking world, we are now the admired instrument of

economic service. We now rise to the highest heights, and never more need have any fear of our position, as our future place in the world is for ever assured.'

One of the chief men in the concern, indeed, had the hardihood to tell the shareholders at the annual meeting three months before the doors of the concern were shut that 'We have had to work patiently and gradually, but at last we have doubled our figures.'

And how literally true and factful was that last sentence, we shall see presently.

The directing financiers specialized in the religious Press with their advertisements for new depositors; but although they regarded the religious as 'easy meat,' they were by no means prejudiced, or bigoted. Any man or any woman's money was good enough for them, and they would take in an Atheist as readily as an Anabaptist. They had seventy-two branches for doing what they called 'business'; they had a Scottish advisory board, and they had actually succeeded in inducing a respected ex-Lord Provost of Glasgow, Sir Samuel Chisholm, to become the chairman of that advisory board, and used his name as a lure!

And then suddenly came the crash. On December 20, 1920, the bank shut its doors, and the next day Mr. Roome, for the Director of Public Prosecutions, was in Court declaring that the bank was 'hopelessly insolvent.'

'A shocking fraud has been perpetrated on the public,' he said. 'For the past nine years, from 1911 and onwards, there has been a heavy annual loss on trading amounting in the aggregate to upwards of £1,000,000, yet the public accounts of the bank have been manipulated so as to show a profit and induce the public to believe that the bank was prosperous and sound.'

Later, in June 1921, when the trial of the chairman, the secretary, and the accountant took place, the Attorney-General described the bank as 'a miserable concern,' and declared that 'the whole business was a colossal and protracted fraud, stage-managed with stage hands and a property room.'

There was a deficiency of £2,000,000 ; the chairman was indebted to the bank funds for large sums of money ; and another beneficiary in the witness-box admitted dealing or speculating in Mexican rails, 'but he did not know whether it was for the bank or his own account.'

The accountant and auditor admitted that a property owned by the bank, called the Dreadnought Cement Company, and which the bank had purchased for £5500, had been entered in the bank's balance sheet as an asset worth £780,000. And there was a Clay Company in Cornwall for which the bank had paid £230, entered on the bank's balance sheet as an asset worth £150,000.

The total 'write-up' of the assets, according to Sir Gordon Hewart, the then Attorney-General, amounted to no less a sum than £2,167,790 ; and in addition, for the year 1920 alone, there was a trading loss of £1,114,145. So that actually at the end of the year there was a deficiency of £3,281,935.

There was nothing for the shareholders to divide, and the depositors in the bank would be lucky if they got 3s. in the £1 returned to them !

Mr. Farrow, in Court, said that he had often felt that handling four millions of the savings of the people was too great a responsibility for one man. And he added : 'I am not in a Court of Morals. I know many things are done by the banks at the end of the financial year.'

What these many things were he did not further disclose, or, if he disclosed, a discreet Press took care not to pass them on to the public.

Nevertheless, the presiding Judge at the Court of Non-Morals issued sentences of imprisonment ranging from one year to four.

But how were the Farrow's Bank frauds discovered? What was the major miscalculation or oversight by the ingenious financiers which resulted in these artful dodgers of high finance being laid by the heels?

In the answers to these questions there is a certain grim comedy, which is all the shareholders got at the winding-up of the concern.

In 1920 the proprietors of the business had considered the time opportune for the bank to be passed on as a prosperous going concern to any individual or group of individuals possessed of more money than wisdom. And, providentially as it appeared, there arrived in London a Mr. Read, a financier of New York.

He was of Norton, Read & Co., and had come over to London for London's good, among the methods of carrying out which laudable object was apparently the sale to British investors of 850,000 shares in the Callax Oil Company of Mexico. Mr. Read was evidently in the finance business in a big way, and Farrow's conceived it to be their bounden duty to unload their bank upon this innocent stranger from a far country who was peddling the Mexican oil shares.

So a deal was arranged. Read was to buy Farrow's Bank and become the owner of that prosperous and thriving institution. He was to put down £150,000 for the purchase of shares, and to bring in £500,000 of new capital.

Of course, there was to be compensation awarded to the Farrow's Bank pioneers out of the new American money. The secretary at first asked for £200,000 in compensation on behalf of the disappearing directors, but ultimately agreed, in order not to appear too grasping and greedy, to accept £100,000. Farrow was to get £28,000 cash down as compensation, and £4000 a year for consenting to remain as chairman. Read was to be managing director for the future.

Then the next Farrow's Bank balance sheet appeared, and Read was staggered to find that his promised £500,000 was already being shown as an asset.

Quick, slick work that, thought the oil share salesman ; these skilled practitioners in London were too agile for him ; he might be safer in little old New York after all. So he cleared out of Farrow's at once on the ground of misrepresentation ; and the Farrow fat, balance sheet, and all, was in the fire.

Nor does the American gentleman appear to have been so badly stung in the transaction, for Mr. Curtis Bennett (later Sir Henry Curtis Bennett) declared in Court that Read had not paid in cash to Farrows, but only 2500 oil shares in lieu of cash.

In the course of the trial it emerged that the Farrows Bank operators had the idea that if the worst came to the worst the Government would intervene to save the bank, as Governments had saved other banks before, and they threatened that they ' would go out on a roaring campaign for State inspection of all bank balance sheets.'

Perhaps it is a pity they did not, for had their roaring campaign been a success we might have been spared the spectacle of the Committee on Finance and Industry (1931), popularly known as the MacMillan Committee, reporting that many of our respectable

banks were engaged in a practice of ' window dressing ' their balance sheets. In that report we read (pages 156-157) how British banks arrange their balance sheets for separate days. How Bank A borrows (' temporarily acquires ' is the phrase used by the MacMillan Committee) from the money market on the morning of its balance sheet and returns the sums it had borrowed early next morning, so that Bank B will be able to get these sums in time for *its* balance sheet. And how Bank C does the same thing next day, and so on down the list.

By these dexterous sleight-of-hand methods the banks are able to show great cash reserves, which in fact and reality they do not possess ; and the MacMillan Committee goes the length of estimating the ' temporary display ' figures so paraded in the balance-sheets as amounting to no less than £75,000,000.

And these are the ' respectable ' institutions, which, of course, Farrow's Bank was not.

CHAPTER IX

PLUNDERING THE MUNICIPALITIES

‘There’s a sucker born every minute.’—PHINEAS T. BARNUM.

IN January 1930 Mr. Justice Avory told Clarence Hatry and his associates that they stood convicted ‘of the most appalling frauds that have ever disfigured the commercial reputation of the country, frauds far more serious than any of the great frauds on the public which have been committed within the past fifty years.’

‘I am unable to imagine,’ he added, ‘a worse crime than yours.’

And *The Times* in its leading article upon the Hatry robberies, cried indignantly :

‘There have been rogues in finance before, but downright fraud and treason like this in the very citadel have not been known. . . a signalman has deliberately tampered with the signals : a rogue has traded upon the common expectation of integrity in finance.’¹

Of one of the Hatry concerns, the Austin Friars Trust, which began in May 1927, and was wound up in September 1929, the Attorney-General declared in court :

‘It must have had a gay life while it lasted, as its liabilities were estimated to rank at £19,000,000, and the assets at only £4,000,000.’

But the part of the Hatry indictment which has the most important, and, indeed, I believe, a unique

¹ *Times* report, 25/1/30.

lesson for us, is that which dealt with Hatry's incursions into Municipal Finance.

We read of great Municipal Corporations raising their loans through Hatry and his group of speculators. What a list ! Among them Plymouth, Rotherham, Chesterfield, Grimsby, Wakefield, St. Helens, Bath, Poole, Doncaster, Bristol, West Hartlepool, Bradford, Swansea, Wolverhampton, Sunderland, Ealing, Newcastle, Nottingham, Blackpool, Sheffield, Eastbourne, Wigan, Southampton, Hastings, Tyne-mouth, Brighton, Stoke-on-Trent, Walsall, Doncaster, Birmingham, and Gloucester.

Not all of these towns were bitten. Most of them escaped. But some were bled almost white ; Wakefield, for example. That city, so *The Times* (September 28, 1929) estimated, would require to get a thirty-year loan to meet the Hatry losses, and the annual cost during these thirty years would be no less than 1s. 4d. on the £ of rates.

Wakefield had raised a loan through one of the Hatry Finance companies, for £422,000 to be paid in instalments. The city of Wakefield was liable for this £422,000 of issued stock, but had, in fact, received only £100,000 in cash. Worse still, it transpired that Hatry and his friends had issued bogus Wakefield certificates of stock for no less than £350,000. A total robbery on Wakefield alone of £672,000 !

In the case of Swindon, the City Council received only £250,000 out of an issue of stock for £500,000, and, in addition, there were £220,000 worth of bogus certificates sold, or lying at banks as security for other 'loans' given to Hatry and his group. At Swindon, the total plunder was therefore £470,000.

Gloucester Corporation had likewise received only £250,000 cash for a loan liability of £500,000, and,

in addition, the Hatry group had fabricated extra certificates for £217,000. Here the plunder was £467,000.

Almost incredible, is it not, that municipal corporations should raise their public loans through money agents and reckless adventurers like Hatry ! And equally incredible, surely, that we should still, to this day, be without a National Investment Board, or a Federation of Municipal Banks, which could guide and assist Municipal borrowing.

But there is this to be said to the credit of Hatry, that when his balloons had exploded and he stood in the dock charged with wholesale forgery, he did not whine or pretend that he had sinned inadvertently ; he declared in court with engaging candour :

‘ I am now irretrievably and irreparably ruined. My name has become a by-word, and if I am found guilty, when I leave prison—whenever that may be—my punishment will begin all over again. . . . Sir, I do not pretend to be a fool. I fully realized all this when I took the risks, and equally I had every reason to be convinced at the time that I was saving the situation and thereby protecting my creditors. . . .

‘ Crazy as appear to have been my actions in the light of subsequent developments, I was actuated solely by a desire to do the right thing. My motives were clean and creditable. Sir, I will take whatever punishment is in store for me without complaint.

‘ It is not my intention to apply for bail, and I hope that in the event of my colleagues making such an application you will give it favourable consideration.’

At the age of twenty-three he was an insurance clerk ; at thirty, a director of fifteen companies.

He had begun his career as company promoter by ‘organizing’ Jute Industries Ltd. (capital, 8½ millions, which has been since surgically cut, to the great loss of the shareholders) ; then the Commercial Bank of

London (afterwards known as the Commercial Corporation of London) which went bankrupt in 1923 with heavy losses. Next he 'organized' British Glass Industries Ltd., and floated it off (with a swollen capital for goodwill) to the inevitable rocks.

Yet, despite his record, he always seemed able to command any amount of Bank credit for fresh ventures, and, one after another, he floated such concerns as the Drapery Trust, the Austin Friars Trust, Automatic Machines, the Corporation and General Securities Ltd., the Oak Investment Corporation, and the Retail Trade Securities Ltd.—all of them will be found blacklisted on the London Stock Exchange list in 1929.

In that same year, 1929, he had promoted Allied Ironfounders Ltd., and had undertaken to purchase the securities of certain steel companies for £8,000,000, and to form a huge steel manufacturers' Combine or Trust.

It was in this last speculation that he broke. He borrowed money to purchase the steel securities. Part of that borrowed money he did, in fact, devote to the purchase of these securities, but the rest of it, and more besides, he spent in trying vainly to keep up the price of other Hatry shares upon a rapidly failing market.

Many who read these lines may recollect the rapid fall in the price of stocks and shares in the autumn of 1929. Hatry was caught in that crash.

Between September 19 and November 13, 1929—less than two months—the values of securities dealt with upon the New York Exchange fell by the almost incomprehensible figure of £8,000,000,000, a sum greater than the total British National Debt, and greater than the entire cost of the War to the United States.

Hundreds of thousands of families were ruined in a single night. On one day no fewer than 17 million shares changed hands on the New York Exchange, and in an endeavour to dam back the torrent the Exchange was opened only for three hours a day and not at all upon Saturdays.

When the typhoon hit London—and according to the *Bankers' Magazine* 365 British Securities fell in value by £349,775,000—Hatry strove in vain to maintain the value of the steel securities upon which he had raised loans right and left.

He resorted, as we have seen, to the forgery of municipal bonds as a method of raising money. But the price crash was too serious and too prolonged for Hatry to cope with, and when he realized that his liabilities exceeded his assets by some £20,000,000, he and his group (except one Gialdini, who had bolted to Italy) went to the Public Prosecutor and confessed to 'irregularities.'

The Hatry crash stunned the City, and not even a stiff sentence of fourteen years' penal servitude for Hatry, and periods of seven years and three years for his companions, abated for a long time the wrath and indignation of the money market towards the joint-stock banking system, which had, in using him and financing him, cast a mantle of 'respectability' over his operations.

CHAPTER X

LESSONS FROM LEE BEVAN

'Statesmen and patriots plied alike the stocks ;
Peeress and butler shared alike the box ;
And judges jobbed, and bishops bit the town,
And mighty Dukes packed cards for half a crown.'
POPE, ' Epistle to Lord Bathurst.'

AMONG the larger fish caught in the bankers' deflationary net in 1922 was Mr. G. L. Bevan. He was Chairman of the City Equitable Insurance Company and senior partner in an old-established firm of stockbrokers ; lived in a suite at the Carlton Hotel ; during his spare time he was a director in such solid enterprises as Leyland Motors, South American Stores, South Brazil Electricity, and Agricultural Industries Ltd.

He was a great city magnate, one of the class which dictates policy to Governments.

His City Equitable had assets of £3½ millions ; its £1 shares with only 4s. paid up upon them were freely quoted on the Stock Exchange as worth £3 each ; dividends of 10s. were paid upon the fully-subscribed £1 ordinary shares, and the shareholders at the annual meeting in June 1921, rose and cheered him to the echo. He was indeed, as Mr. P. G. Wodehouse might say, One of the Ones.

And although he knew that his balance-sheet assets were largely fictitious, that the company was insolvent, and that he himself was enmeshed in a network of financial fakery, he rounded off an address to the

cheering shareholders with a homily about 'insurance being, with banking, one of the twin bastions of modern finance,' and inasmuch as they were privileged to belong to one of these groups 'it was their duty as it would be their fixed and constant endeavour to bear their part, relatively small though it might be, in a manner not unworthy of the traditions of this great city.'

A year earlier he had unloaded 250,000 eight per cent. preference shares upon the market : they were promptly oversubscribed. In addition, 464,000 shares had been allotted to the existing holders of shares in the Greater Britain Insurance Corporation and the City of London Insurance Co. Ltd.

But by February 1922, Bevan had bolted from the country under the name of Leon Vernier and wearing a false black beard ; the City Equitable was in the hands of the Official Receiver, and shareholders were offering possible buyers six shillings per share to take shares off their hands and to assume liability for possible calls on the capital ; the Greater Britain and the City of London companies were bankrupt ; the Equitable Associated Co. had a deficiency of £2½ millions, and Ellis & Co., the stockbrokers, where Bevan had been senior partner, had liabilities said to be in the region of seven figures.

That was in February 1922, and although the police in every European capital were on the hunt for him, he was not caught until four months afterwards in Vienna. He was then brought back to London, and, after a twelve days' trial, was sentenced to seven years' penal servitude for, *inter alia*, issuing false balance-sheets, a false prospectus, and fraudulently converting the funds of the insurance companies he had directed to his own use.

The detailed *modus operandi* of his frauds is very difficult to discover ; and, indeed, *The Times*, commenting upon the Bevan trial, frankly confessed that it was unable to explain precisely how the funds of the City Equitable, the Greater Britain, and the City of London Insurance Companies had disappeared. The Editor of *The Times* was baffled.

‘ Great numbers of people, many of small means, placed their faith in him (Bevan) and his concerns. They have been ruined by his conduct. He juggled with the accounts ; borrowing here to repay there, and weaving a skein of financial perplexities which eventually it became impossible to unravel.’

‘ Tortuous stratagems ’ was how Sir Ernest Pollock, who prosecuted, described Bevan’s ingenious trickery ; but the jury who tried the case declared that the trickery was only ‘ rendered possible owing to other directors not carrying out their duties,’ in other words, had the ornamental figureheads who were on Bevan’s Boards of Directors done their duty, instead of merely drawing their directors’ emoluments, the Bevan frauds would not have been so easily initiated, nor have continued for so long.

From the reports of the trial we learn that the Britain Company (Bevan, chief director) had realized £404,000 of its assets and that Bevan had ‘ reinvested ’ £150,000 of this money with a stockbroking firm, Ellis & Company (where he was senior partner), and £221,000 of it with the City Equitable Fire Assurance Company (where he was chairman of directors). And at this period both Ellis & Company and the City Equitable were financially upon the rocks.

In other words, he stripped the Britain Company by investing its assets with himself under various aliases.

Similarly he ‘ invested ’ £69,000 of the funds of the City of London Company with Ellis & Company.

And there was an Associated Fire Insurance Company (again Bevan) with a deficiency of some £2,500,000 ; Ellis & Company had losses declared to be in the region of seven figures ; and the funds of all four concerns seem to have been juggled about with the same dexterity and rapidity of touch as Cinquevalli used when he juggled with the ivory balls.

As an illustration : there was a manager of the City Equitable Company who had a loan from the company of £110,000. He had also a salary of £5000 per annum, free of income tax, and a commission of 4 per cent. on the annual underwriting profits of the company.

These remunerations seem already absurdly generous, but when we read the terms upon which he borrowed his £110,000 loan, the thing becomes fantastic.

It is almost inconceivable, but true, that there was a clause in his loan agreement declaring that ' if at the end of eleven years, the commission to be credited to him did not amount to £110,000 ' (and that, you will observe, is an average of £10,000 per annum), ' he was to be quit and free of the debt.'

Moreover, if the company failed, the debt was to be automatically wiped out. In other words, this one manager was apparently in receipt of £15,000 a year for managing a more or less derelict company which had parted with £904,000 to Ellis & Co. (that is, Bevan). And it emerged in Court that the manager in question had remitted a share of his £110,000 loan to Bevan.

Bevan had sat for years a City spider, and had woven his schemes in an expensively furnished room with expensive wood-carvings on the walls, the decorations above the fireplace containing the design of an eagle feeding her young, surmounted by the monogram ' G.L.B.'

Consider it well, an eagle feeding her young !

CHAPTER XI

THE METHODS OF MR. BOTTOMLEY

‘ Well, if I be served such another trick, I’ll have my brains ta’ en out and butter’d.’—FALSTAFF in *The Merry Wives of Windsor*.

‘ . . . so-called captains of finance who skinned the country alive by misnamed securities.’—GENERAL JOHNSON, National Recovery Administrator, U.S.A., *The Times*, 9/11/33.

ONE of the most daring operators in High Finance since the present century began was Mr. Horatio Bottomley. His was an amazing career and one only possible in a civilization such as ours, where something for nothing is the prevailing morality, and where the clever humbug with a persuasive tongue can induce the Foolish and the Gullible to invest their savings with him in promising enterprises like the Sol Syndicate or the Great Lucknow Consols Incorporated, or in the purely imaginary extraction of gold from pots at the foot of the rainbow.

Mr. Bottomley (for his war services dubbed not inappropriately Hotairo) was born in 1860 ; was trained as a lawyer in Birmingham ; revised proofs for his uncle, George Jacob Holyoake ; at the age of twenty-four was an active journalist in London, running various periodicals, including, if you please, a mothers’ magazine.

Ere he was thirty years of age he had founded The Hansard Publishing Union, and when it failed, and had lost its capital of £1,000,000, the Crown authorities, evidently in error, prosecuted Bottomley ; at any

rate, he defended himself with great brilliance in court and was acquitted.

Then he founded the Joint Stock Institute. By the middle 'nineties he had become a considerable magnate in the West Australian gold-mining market and was a very wealthy man ; was adopted as Liberal candidate for South Hackney, a constituency which he won in 1906 ; was a very heavy investor in theatrical speculations ; kept a racing stable in Sussex ; successively won the Cesarewitch, the Stewards' Cup, the London Cup, and the Prix de la Manche.

By the end of the year 1906 his financial record can be computed as follows :

Between the years 1885 and 1895 he had promoted or been concerned in the promotion of fourteen limited companies with a total nominal capital of £2,981,507. Of these fourteen companies nine had by the end of the year 1906 completely disappeared in liquidation either 'compulsory' or 'voluntary' : in one company the allotments were cancelled : one was reconstructed : one dissolved : one 'ceased' : and one was reported as showing 'no dividends and no reports.' Many of these 'dud' concerns were in Australian gold-mining. By 1906, therefore, all the fourteen companies referred to had vanished, either in liquidation, dissolution, cancellation, cessation, or 'lack of animation.'

During the next ten years, 1896 to 1906, Mr. Bottomley was concerned with the flotation of forty-three limited companies. From the names he gave his companies, there appear to have been thirteen of them, which were nominally at least, concerned with gold mines. But he had catholic tastes, for he floated rubber and copper companies, and land companies

and Petroleum Exploration companies, mostly in Australia and New Zealand, and a John Bull Company, which he registered in Guernsey. The nominal capital of these forty-three ventures reached the figure of £21,751,000. But how much of that money was actually subscribed by the investing public we do not know. What we do know is that by the year 1906, no fewer than thirty of the companies had disappeared in 'liquidation' or 'reconstruction,' and no information was obtainable about seven (although in one case, the Eureka Gold Mines Incorporated, the £1 shares had been dealt with at 3d. each); in several of the concerns no subscriptions had apparently been received; and only two companies had survived infancy without 'reconstruction.'

In 1908 once again he was prosecuted by the Crown, but again he emerged victorious from the law courts. About this period, however, he was much harassed by civil actions raised against him by his victims or their relatives, and *The Times*, in a survey of his career many years afterwards,¹ says of him about the years 1908-10 that :

'The Judges criticized his doings severely, and once the executors of a speculative old gentleman of eighty were awarded £50,000 damages, after which he had to make an apologia in the House of Commons.'

The £50,000 action—commonly referred to at the time as the Masters case—the case to which *The Times* refers, was raised against Mr. E. T. Hooley and Mr. Bottomley, by the daughter of an old gentleman called Masters who had died in 1910. Mr. Hooley compromised, but Mr. Bottomley

fought and lost, *The Times* report declaring that :

‘ The ground of action was that the defendant persuaded the deceased to buy large numbers of shares in various Bottomley companies by making false and fraudulent representations as to their value, the shares, in fact, being quite worthless in every case.’

The verdict of the jury was unanimously for the plaintiff.

Mr. Bottomley appealed, but lost, Lord Justice Moulton, one of the Lords of the Appeal Court, in his judgement asserting that every penny paid into the Investment Trust admittedly had ‘ gone to Mr. Bottomley.’

In 1911 the failure of Mr. Bottomley’s finance companies and the costs of his lawsuits landed him in the Bankruptcy Court ; in 1912 he had to resign his seat in Parliament.

Between 1906 and 1921 he did not do so much in Dominion gold company flotation, going in instead for fresh ventures in Pulp and Timber flotation in Newfoundland, London and South-Western Canal (registered in Guernsey), Printing and Publishing in London, Premier Briquette Co. Ltd., Investment Trusts, and so on—fresh pastures likely to attract fresh crops of ‘ suckers.’ Nineteen companies in all he floated during this period with a nominal capital a little over £3,000,000. Of the nineteen companies, however, no fewer than thirteen had gone the usual Bottomley road—liquidation or ‘ reconstruction,’ this reconstruction being a polite euphemism for the process by which investors who had invested perhaps £100 in shares agreed that the hundred pounds they had invested were to be written down to a hundred shillings or some such figure.

But these latter years of his financial exploitations covered the war period, wherein he had contrived to restore himself to popular favour, had become a national leader, and had killed multitudes of Germans every week with his typewriter.

In 1915 he inaugurated his War Loan Club Sweepstake, with headquarters at Lucerne in Switzerland. His prospectus was really a work of art, announcing without hesitation or reserve that the 'club is inspired by the highest motives of patriotism.' Subscribers were told that they were 'helping the British Empire,' and they were supplied gratis with pictures of Kitchener, French, Jellicoe, Balfour, Asquith, and Lloyd George. The prospectus was beautifully printed with the same kind of type used in the printing of Bank of England notes, and to put the final touch of proper 'atmosphere' to the document, there were affixed the magic figures £5000 in heavy black figures.

The patriots of the period were invited to purchase as many as possible of these participation certificates at 2s. 6d. each; and the certificates, pushed and peddled all over the country, were supposed to give their holders a chance of becoming prize-winners in a great draw (with blocks of War Loan for prizes) to be held in Switzerland on 1st September 1915.

Ninety thousand gallant hearts responded. If a citizen purchased £1 worth of tickets he ran a chance of securing £20,000 worth of war bonds. It was the golden opportunity of a lifetime. As Mr. Bottomley explained:

*'The Empire is your security.
You cannot possibly lose your money.'*

That did not happen to be quite true, for the ninety thousand individual speculators *did* lose their money,

all but a dividend of 3·38d. for each £1 they had invested, and that 3·38d. they did not get back until three years after they had purchased these participation certificates.

It is difficult for us now to reconstruct the credulity and humbug of these war years or to imagine the state of affairs in which Horatio Bottomley (preaching from a weekly pulpit in Lord Rothermere's Press) had become one of the spiritual leaders of the nation, demanding stridently that Germany should be shackled with an indemnity

‘that will take her 500 years to pay.’

He could emit without a blush such flatulences as that—

‘Great Britain will tend more and more to become a free Commonwealth with a Republican Government under Monarchical forms and a hereditary President.’¹

He had gotten himself converted and wrote articles with headings such as ‘My Mission : A Plea for the Spiritual Revival of the Nation.’² He ‘heard a voice from heaven say, Write !’ So he wrote. And he received £150 per article for his writings.

He also promoted a campaign for a Business Government, one of the undisguised essentials of which was a place for Bottomley in the Cabinet. A Business Cabinet with a Bottomley in charge of the Treasury would have been a sight for the gods ! The *Sunday Pictorial* (25/7/15) lent its powerful aid to the Business Government project, and declared that the Cabinet was Mr. Bottomley's ‘rightful place.’ He ran candidates at bye-elections for his Business Government Party. He received £100 cash down for a

¹ *Sunday Pictorial*, 31/10/15.

² *Ibid.*, 22/10/16.

patriotic lecture, and it was subsequently asserted by one who knew him well, that he kept three grades of peroration for his speeches, one on the King and Empire ; one on the ' Land of Hope and Glory . . . Mother of the free, God who made us mighty, make us mightier yet ' ; and one about the Prince of Peace ; the latter being specially effective with religious audiences and individual auditors who had lost sons in the War.

It was in these circumstances that the ninety thousand hopeful investors, at Mr. Bottomley's request, posted their participation money to Lucerne, without even kissing it good-bye.

Some of us did our utmost to warn the public against Mr. Bottomley's impudent grafts, though but little heed was paid to our warnings.

As early as August 28, 1915, I published in the *Forward* newspaper an article by Mr. C. H. Norman, giving selections from Mr. Bottomley's career in the law courts ; but apart from a little cheap bluff about the possibility of legal action by Mr. Bottomley, which I met by giving him the name of my solicitors, no notice was taken of the accusations. In 1916 a Mr. Lotinga had published several of these law court selections in leaflet form, with added strictures of his own, whereupon Mr. Bottomley offered £50 for information which would lead to the discovery of the printer of Lotinga's pamphlet. Mr. Lotinga promptly stepped forward and claimed the £50, saying he was the printer, and Bottomley humbly paid over the £50 and said no more about the matter.

During the next two years the charges against Bottomley were being spread up and down the country and were so undermining his opportunities for plunder that he hit upon an ingenious scheme which he

thought would stop the campaign against him, at least for some time. He arranged with a man called Bigland to get a convenient 'author' who would reprint the C. H. Norman accusations in pamphlet form, issue only six copies and then allow himself to be sued by Bottomley for libel. At the trial the dummy printer and publisher was to plead guilty and offer humble apologies to Bottomley. Behind the scenes Bottomley was to pay all the expenses, and the printer and publisher was to receive a gratuity of £100 for his services in allowing himself to be sued! Bigland did in fact secure a man called John Greaney, who, in due course, as arranged, was sued by Bottomley for libel. On July 11, 1918, Bottomley was awarded £500 and expenses by Mr. Justice Darling and a special jury.

Four years afterwards—on February 19, 1922—Bottomley and Bigland were in dispute in the law courts at Shrewsbury again, and curiously enough, before Mr. Justice Darling, when Bigland disclosed the story of the bogus action in 1918. Here is a transcript of the relevant passages in the trial at Shrewsbury.

'Mr. Comyns Carr : You say besides the £500 he owed you, the third prize to you was to be "for services rendered." What was that?—Introducing a man named Greaney against whom Mr. Bottomley framed a case in the Law Courts. It was a bogus case, the same as this is. Mr. Bottomley arranged with Greaney that I was to print a libellous, scurrilous pamphlet containing extracts of the doings of Bottomley, and then the latter was to sue Greaney for damages. The case came before your Lordship and a jury, and Mr. Bottomley got £500 damages. (Laughter.)

'In answer to his Lordship, witness said the pamphlet was written by a man named Norman.

'Then why was not Norman sued?—I cannot say.

'Was he a rich man?—I don't think so ; he hung around

the Law Courts. (Laughter.) He is one of the Socialist people. I have seen him recently in the Law Courts.

‘Mr. Comyns Carr : Did Mr. Bottomley explain to you why he preferred to sue Greaney rather than the real author?—Yes ; he wanted to get a verdict in the Law Courts to frighten every one else from doing such things.

‘Mr. Justice Darling : But why sue Greaney instead of Norman?—Greaney was merely the figure-head. He paid Greaney £100 to be the figure-head. It was a framed-up action.

‘Greaney had agreed to lose the action?—He agreed to put in a nominal defence so that really Bottomley would only have to address the jury as to damages. (Laughter.)

‘Mr. Whiteley said he was assuming that everything Mr. Bigland was saying was what Mr. Bottomley told him.

‘In answer to his Lordship, witness said Mr. Bottomley got a verdict for £500 and costs, but really he paid £100 and costs to Greaney.

‘Mr. Justice Darling : I suppose I summed up in his favour. (Laughter.)

‘Witness : Mr. Greaney was so upset at the way Mr. Bottomley conducted the case against him that I had to take him out of court, otherwise there would have been a scene in court, because Mr. Bottomley did not carry out his plans according to what he told us. Greaney thought there would be little said, but Mr. Bottomley’s beautiful and eloquent address to the jury was in such a style that Mr. Greaney was very distressed, and I had to get him out of court. I took him out just before your Lordship summed up. (Laughter.)

‘Mr. Justice Darling : And you say Mr. Bottomley got £500 and costs, and then he made a gift of £100 to Greaney for his services?—Yes.

‘Mr. Comyns Carr : Who paid Greaney’s costs?—Mr. Bottomley gave them to me, and I paid them over to the solicitor.

‘That was one of the services you rendered to Mr. Bottomley which was taken into consideration when you received the £1000?—Yes.’

Mr. Bottomley’s faked damages and apologies from Greaney in 1918 greatly assisted him in his Victory

Bond Clubs and Thrift Clubs where, according to one of Mr. Bottomley's biographers,¹ the total appropriation amounted to no less than £1,172,939. The same writer estimated that during his financial career from 1889 to 1921 Mr. Bottomley had acquired from his

Promotion of Public Companies	.	.	£2,868,561
From Journalism	.	.	227,500
„ Sweepstakes	.	.	250,000
„ Patriotics (including Government Subsidy ; by or through the Ministry of Informa- tion or Propaganda)	.	.	37,000
„ Victory Bond Clubs	.	.	1,172,939
Total	.	.	<u>£4,556,000</u>

These, of course, are gross figures, and from them would require to be deducted what might be called his working expenses. For example, he had spent from first to last £430,000 on law costs and £210,000 in judgement debts given against him.

But the end came when the public was permitted to read the trial of Mr. Bottomley at the Old Bailey with Mr. Travers Humphreys, K.C., for the Crown, accusing Bottomley of having engaged in private speculation with the funds of the Victory Bond Club and the Thrift Bond Club. Bottomley's method had been to borrow these funds upon his own 'security. One 'loan' of £100,000 he had applied to the purchase of newspapers, and he had appropriated £22,500 from the Victory Bond account to such purposes as the purchase of champagne and the maintenance of his racehorses.

¹ *The Rise and Fall of Horatio Bottomley.* By 'Tenax.' (Denis Archer.)

The jury decided that he was guilty, whereupon Mr. Justice Salter declared :

‘ You have been rightly convicted of this long series of heartless frauds. These poor people trusted you, and you robbed them of £150,000 in ten months. . . . You will go to prison for a term of seven years.’

Bottomley, game to the last, demanded to know if he was not to be entitled to say anything before sentence was passed upon him.

‘ No,’ replied Mr. Justice Salter ; ‘ not in the case of a misdemeanour.’ To which Horatio retorted : ‘ I should have had something rather offensive to say about your summing-up.’

But what the victims who had lost their money thought, offensive or otherwise, is not upon record.

CHAPTER XII

WHITE AND LOEWENSTEIN: LEADERS OF MEN

‘ He sold the horse, it seems, and walked the Fair in search of another. A reverend-looking man brought him to a tent, under the pretence of having one to sell. “ Here,” continued Moses, “ we met another man, very well dressed, who desired to borrow twenty pounds upon these [a gross of green spectacles with silver rims and in shagreen cases] saying that he wanted money, and would dispose of them for a third of their value. The first gentleman, who pretended to be my friend, whispered me to buy them, and cautioned me not to let so good an offer pass.” ’—
GOLDSMITH, *The Vicar of Wakefield*.

THE speculators and money-changers who call themselves ‘ The City ’ always strenuously denied that James White was a financier who played within the rules, and when in June 1927 he locked himself in a bedroom in his Swindon mansion, and drank prussic acid and chloroform, *The Times* published an obituary notice, declaring that he was only regarded ‘ as a particularly bold speculator with a passion for deals on a large scale with corresponding risks.’

White himself left a valedictory letter saying :

‘ I have entertained Royalty, I have called dukes and earls by their pet names, been on the inside of politics, owned a yacht, run a racing stud, raised over £150,000,000 for undertakings, made more than £750,000 in a day, have given large sums to charity, and have been feted by all, and called Jimmy White by a world of people.’

And this man who had called dukes by their pet names, and who had raised £150,000,000, began as a message boy in Rochdale ; became a bricklayer ; at the age of nineteen scraped together £100 and bought a travelling circus ; made money for two years from his circus, then sold out and is alleged to have used the money he obtained by its sale to crush a building trade employer against whom he had nursed a grudge from his bricklaying days.

James White was a born gambler, and he appears to have dived into any enterprise where there was an opportunity of big gains. He organized boxing contests, one of which, however, public opinion compelled him to cancel—that between Jack Johnson, the negro, and Bombardier Wells, at Earls Court, for a stake of £8000.

He got into theatrical enterprises and became chairman of Daly's Theatre : was on the Board of the Tyre Investment Trust ; dabbled deeply in cotton-mill finance during the boom period ; and was a leading man in the group which formed the Amalgamated Cotton Mills of disastrous memory : organized a group which bought the Covent Garden estate in central London from the Duke of Bedford for £8,000,000 ; purchased as a speculation the whole town of Shaftesbury, and the site of the General Post Office at St. Martin-le-Grand ; engaged himself in the flotation of a large number of public companies and, as the Americans say, 'cleaned up big,' so big that at one period he could afford to lose £1,000,000 in Dunlop Rubber. Indeed, he was a member of the Dunlop board in the days of the great Hooley speculations.

The turf had a fascination for a man with White's instincts, and for a time he had a steady run of racing

prosperity, his horse Ivanhoe winning the Cesarewitch in 1919, and in 1920, upon the same event, he is reported to have pocketed £100,000 from a bet.

But his achievements on the racecourse paled before the glories which made him a newspaper hero. When he betted £30,000 upon the rolling of a penny towards a sixpence lying on the floor, and when the story of the hazard was properly described in the Press, his reputation as a leader of men was made.

It was a gamble on oil shares that finished him. He and Sir Edgar Mackay Edgar and Mr. W. B. Mitford were prominent in the launching of a £9,000,000 company called British Controlled Oilfields.

During the years 1924-6 the shares of this concern fluctuated wildly between 5s. and 25s., and White set himself to secure majority control with a view to the ultimate sale of his holding at an inflated price in the American market.

White bought great blocks of British Controlled Oilfield shares in the expectation that the market would rise: but unfortunately for him Sir Edgar Mackay Edgar had other views, and on the eve of settling day on the Stock Exchange hundreds of thousands of shares were thrown on the market, the price falling by 5s. 6d. a share. White was short of £250,000 to settle with the brokers, failed to raise the money in time, and quietly poisoned himself.

When White passed out, he had contracted to buy Wembley for a sum of £300,000, and his offer had been accepted, yet he left nothing but eight racehorses, unsecured liabilities of hundreds of thousands of pounds, and a debt of £1,700,000 to the Income Tax Authorities.

In his heyday believed to be one of the richest men in the world, Captain Alfred Loewenstein, of Melton Mowbray, Brussels, and Biarritz, vanished in mid-air from his lavishly appointed aeroplane when flying over from Croydon to the Belgian coast in July 1928.

His disappearance greatly upset the artificial silk and electricity shareholders in two continents. But although Loewenstein committed suicide (when his body was discovered in the sea, a post-mortem examination disclosed the presence of 'toxic matter'), and although he was evidently worried by a heavy fall of £12,000,000 in the value of the shares in his International Holdings Company, he was still able to leave his widow a small *dot* of £5,000,000, and there would appear to be no suggestion that he feared exposure of his money-making methods upon the ground of illegality, or that the police anywhere were camping upon his trail. To this day his suicide is inexplicable.

Loewenstein, for all his wealth, was a showman. Even on his suicide voyage, he flew across Channel accompanied by two secretaries, a valet, and two typists. In the earlier months of 1928 he had gone to Canada with an entourage of four secretaries, two typists, a private detective, a chauffeur, an air pilot, a masseur, and a valet.

At Biarritz, when he bathed in the sea, he was accompanied by two valets, two secretaries, and a masseur. He kept a suite at Claridge's in London, and one at the Ritz in Paris.

He was born in Brussels in 1897, his father, a stock-broker, sending him over to Folkestone to be educated. Afterwards returning to Brussels when about twenty-two years of age, young Loewenstein laid the basis of his fortune by daring, but successful, speculations upon the Stock Exchange.

He floated electricity concerns in two continents—Brazilian light and power and traction companies, Rio de Janeiran, San Paulan, and Mexican trams, the International Hydro-Electric Securities Corporation (registered in Canada), and Barcelona traction, light, and power.

Apparently, the chief Loewenstein effort in British finance lay in his effort to secure control of British Cellulose, now called British Celanese, a pioneering firm in the manufacture of artificial silk. In that concern Loewenstein held £700,000 of Debenture Stock, and had a royalty upon all the products.

Later, however, he quarrelled with the brothers Dreyfus, the Swiss chemists who were the technical directors of the business, and he disposed of his British holding for £1,000,000. But through his International Holdings Company he still dominated, or sought to dominate, artificial silk production in Germany, Belgium, France, and Holland; and he had some interest in a Polish concern.

There is no trace of him in artificial silk in America, but his great ambition was said to have been to amalgamate and control the world's electricity plants, and he seems to have nibbled at the idea (later developed by the Swede Kreuger) of buying trade monopoly rights from any Government in urgent need of hard cash.

In the year 1926, for example, he offered the Belgian Government a loan of £10,000,000, free of interest for one year, but with other conditions attached to the proposal, which were never publicly disclosed. To the French Government he made some similar offer. In both cases his offer was refused.

I have already said that no one has, so far, suggested any reason why Loewenstein should have committed

suicide when he did. True, it is known that a syndicate of European banks was at war with him—although the reason for the feud is obscure ; it is, indeed, one of the major mysteries of the financial underworld during the past dozen years—and it is known that in the summer of 1928 this syndicate had pulled down the value of the shares in his International Holdings Company from £31,000,000 to £19,000,000 ; true, also, that he had been foiled in his attempt to secure control of the Bank of Brussels.

But he was still a multi-millionaire ; was still in the early 'thirties ; and was still with a prospect (if the silly system which permits it should last long enough) of realizing his great ambition of being the recognized king of all the electricity and artificial silk in the world. Why, then, commit suicide ?

Hydro-Electric shares had fallen under the attack of his financial enemies from 85½ dollars on May 7 to 25 dollars on July 5 ; that was a very considerable smash ; but it in no wise explains his stepping out of an aeroplane flying high over mid-Channel when he still possessed a private fortune of over £5,000,000.

Other money maniacs had their Napoleonic dreams of world conquest dissipated in the great price deflation in post-War years, but none of these enemies of civilized men had committed *hari-kari* so long as he retained five millions in his private possession.

Loewenstein's death, then, remains a mystery. Immediately after his dramatic disappearance, all discussion and speculation upon his high finance suddenly, and completely, disappeared from the Press. But his seizure of the control of £30,000,000 or £40,000,000 sterling in electricity and artificial silk in a brief ten years' scramble is no mere hypothesis ; it is a fact ; and that he was permitted to make it ; and

that he was permitted to levy a tribute, real and calculable, upon the silk stockings of millions of women, and upon the power of light and traction of the industry of a dozen sovereign States, is a central and vital element in our economic and social history. We ignore such facts or remain in ignorance of them, at our peril.

CHAPTER XIII

THE KREUGER SWINDLES

‘A negro preacher, having vainly attempted to collect money from a peripatetic flock, thanked God that he had got his hat back.’—Sir MAX PEMBERTON.

EVERY successful operator in the realm of High Finance must of necessity adopt a different technique from his immediate predecessors. Whenever a flock of investors are robbed by a new device, the device itself becomes public knowledge, and the investing class generally is placed upon its guard for at least a generation against a repetition of that particular form of fraud. New methods of preying upon the credulities of the hopefully acquisitive public must therefore be employed, and when these methods are exposed, they must in turn be discarded for others. The confidence trick has to be continuously varied, and the grand scale operator who would clean up millions dare not resort to hackneyed methods.

The most daring rogue of post-War Finance, Ivar Kreuger the Swede, opened out in new territory. He set himself to secure a world monopoly of a commodity in daily use in every household, and to achieve his ends he purchased monopoly rights from needy Governments: the necessary bank credits for his loans to these needy Governments he raised by the simple expedient of forging bonds which he deposited with the banks as ‘security.’ And he created some new banks and got control of other banks in order to enable

this transfer of depositors' money, in exchange for his forged securities, to be readily made. The trick was really simplicity itself. The banks collected the deposits from customers. Kreuger collected the deposits from the banks, giving them forged Italian Government bonds in their place. Thus matters were kept all right for the banks' auditors and the balance-sheets, the auditors not being aware that the 'securities' were forged, and the existence of the 'securities' never coming to the knowledge of the Italian Government.

When a government was in financial difficulties—and, goodness knows, there have been many of them in that position since the Armistice in 1918—Kreuger would offer to arrange a huge loan upon the condition that he was granted a monopoly for the sale of matches within the boundaries of the borrowing country.

The needy government got its credits all right by Kreuger's impudent forgery of the State bonds which he had handed over to the banks in Sweden and elsewhere as cover. And not only were these bonds fraudulent, but every time a safety match was struck in the borrowing country a disguised tax had to be paid to this multi-millionaire Swedish crook.

Born at Kalmar, Sweden, in 1880, to a middle-class family, his father a match manufacturer in a small way; nothing remarkable about his boyhood; becomes an engineer, and in 1903 is in London in the employment of a well-known firm; drifts to South Africa, where he speculates in real estate at Johannesburg; is next found in Canada and the U.S.A. in 1905; two years later is back in Sweden running a concrete engineering business with a man called Paul Toll; by 1911 Kreuger and Toll have become a limited liability concern with a capital of £50,000; two years later Kreuger sets out to amalgamate and

trustify small Swedish match factories ; steadily he adds business to business ; the War aids him ; by 1917 he is managing director of a Swedish match company operating a capital of £5,000,000 ; in 1919 the capital has grown to £20,000,000 ; a year or two later it is £40,000,000, and Kreuger is paying out dividends of 12 and 15 per cent.

A national—nay, an international—hero, for his shareholders were by that time scattered over two continents, and his 15 per cent. stocks regarded everywhere as a gilt-edged security !

From this point onwards, it is difficult to disentangle the threads in the great Kreuger web of financial manipulation. And when he shot himself in Paris in March 1932, so complicated and confused were his affairs that the Swedish committee of investigation entrusted with the examination of his means and estate had to begin tracing his tortuous operations through nearly 400 subsidiary concerns in timber, wood-pulp, iron-ore, banks (at least one in Holland created for no other purpose than the fraudulent manipulation of imaginary, and the duplication of genuine, assets), and engineering concerns.

He controlled many companies, from gold mining, to the Swedish Ericcson Company responsible for the automatic totalisators. His talons were all over the world—in banks in Ecuador ; in the national finances of Latvia ; in Rumania and the kingdom of the Serbs and Croats and Slovenes ; when he died he was on a fair way to dominate the match industry in the United States as he had already done it in Germany—although when subsequently the bluff was called in the New York Courts, his International Match Corporation could only produce cash assets of £33,000 against an indebtedness of £20,000,000.

In the British Match Corporation, with a capital of £6,712,500, Kreuger's Swedish Match Company had holdings of 1,856,250 ordinary shares. So he was apparently nibbling for control here, too.

But that apart, according to the report issued by the British Protective Committee,¹ 8000 separate British investors had been bitten. The face value of their total holdings was £11,392,000, but inasmuch as their stocks had been purchased at a huge premium it has been estimated that the real amount of the loss to British investors was about £50,000,000.²

Let us cast our minds back to the year 1929, the period of the Young Plan for the financial rehabilitation of Germany. The Young Plan—so-called because it was sponsored by Mr. Owen D. Young, a leading financier and official representative of the President of the United States—need not concern us here beyond to note this, that it involved the raising of a sum of £25,000,000 by the German Government.

Forward into the breach stepped Ivar Kreuger, the international safety match king. He would raise the £25,000,000 for Germany conditionally upon the German Government granting him a monopoly for the sale of matches within its territories. Kreuger's terms were accepted.

For every £100 nominally borrowed, only £93 was in fact to be paid, but the German Government, of course, was debtor for the £100 and had to pay interest upon that £100 at the rate of 6 per cent.

The German match monopoly was given to a newly-created company, the Deutsche Zundholz Verkaufs A.G., where Kreuger held half the shares. The com-

¹ *Times*, 18/7/32.

² Mr. Francis Williams declared in the *Daily Herald* that this was indeed a 'conservative' figure.

pany was to be allowed to earn 8 per cent. profits per annum, and all remaining profits after the 8 per cent. was paid were to be divided in equal shares between the German Government and the Swedish Match Company (again Kreuger).

But to get these profits the retail price of matches was to be increased forthwith in Germany from 2½d. to 3d. per packet of ten boxes, an increase which was estimated to yield no less than £700,000 per annum.

Under this ingenious scheme the whole German nation—60,000,000 people—were to pay an indirect and disguised tax to the financial Colossus at Stockholm and his backers.

Kreuger had no doubt whatever about his ability to raise the £25,000,000. If he could not raise the money in a bona fide way, he would raise it otherwise. And one of his otherwise methods was the expedient of wholesale forgery.

He simply invented bonds and deposited the forged bonds with the banks which he either owned or controlled as 'cover' for huge blocks of bank depositors' money which he calmly appropriated in exchange for the 'securities.'

He forged forty-two Italian Treasury Bills, each having a denomination of £500,000—a total of £21,000,000—purporting to be signed by the Italian Minister of Finance. These, with other £6,000,000 forgeries of Italian Government promissory notes, he used as backing for his German (and other) Government loans.

Some of his fellow-directors in Sweden subsequently pled that they thought the Italian bills were genuine, the more so as Kreuger pledged his colleagues to secrecy about the deal, on the ground that disclosure might involve serious complications for Italy! What

it did do in the end was to involve serious consequences for Kreuger's fellow-directors.

He appears to have projected negotiation for a similar £7,200,000 loan (180,000,000 pesetas) to the late dictator of Spain, General Primo de Rivera. *The Times*¹ quoting the report of the official investigators, says that the contract was found in Kreuger's safe, but that the money was never paid over to Spain, although the loan was shown as an asset on the books of Kreuger and Toll. We have never yet been favoured with the full story of this enterprise.

The name of a cousin of the ex-King of Spain has been dragged into the story as a vigorous opponent, and the late King of Spain, Alphonso, was compelled in person to issue a firm denial that he was privy to the Kreuger plot against the Spanish people.

What we do know for a surety is that Kreuger paid a Spanish confederate £66,000 to facilitate the contract, and that the confederate bolted with the money, and when threatened with prosecution, calmly threatened the publication of documents which would involve many highly-placed Spaniards. So there was no prosecution.

Again, in the Kreuger and Toll balance-sheet for 1930 there appears an asset of 34,600,000 florins as lying with 'The International Bank and Finance A.G., Danzig,' although, as a matter of fact, this bank did not open its doors until the first week of January 1931, and never at any time did Kreuger and Toll have any money there at all. Sheer brass-faced impudence could scarcely go much further than that.

In Holland the balance-sheet of the Garanta Bank, which was owned secretly by Kreuger, showed assets

¹ 18/4/32.

of £5,000,000 in Poland ; these ' assets,' in fact, were simply money extracted from the bank by Kreuger.

Various estimates have been given of the extent of the Kreuger swindles, some placing the frauds as high as £150,000,000. But in September 1932 the administrators of Kreuger's estate issued an approximate estimate showing his personal deficiency at £53,600,000, and the deficiency in the firm of Kreuger & Toll at £13,600,000, a total of £67,200,000.

In their final report upon Kreuger's affairs issued in Stockholm on January 9, 1933, Messrs. Price, Waterhouse & Company, the accountants, declare that between January 1918 and March 1932, Kreuger personally appropriated—that is, stole—432,046,000 kronen (with the kronen at 18 to the £1), nearly £24,000,000.

But what did he do with £24,000,000? What could he do with it? How could he or any one else spend £24,000,000 in the space of fourteen years and three months? Where did the money go? And why were not his defalcations and forgeries suspected or detected by some one in the army of clever accountants and bankers and brokers who so authoritatively warn democracy to leave the control of finance to the wise men who understand it?

Twenty-four millions sterling, illicitly extracted by one man! Clearly the financial system as it is operated to-day does not provide adequate checks against large-scale speculation and fraud.

Nor even yet has the full tale of Kreuger's manipulations been told to us.

The *Dagens Nyheter*, one of the leading organs in Stockholm, in July 1932 openly and specifically alleged that Kreuger personally gave Herr Ekman, the then Swedish Prime Minister, 50,000 kronen for his

electoral funds ; that he also gave by proxy to the leaders of the Swedish Conservative Party, 25,000 kronen ; and that he gave financial assistance (amount not announced) ' to the anti-Muscovite section of the Communist Party,' whatever that may mean.

In August M. Ekman was compelled to resign his chairmanship of the People's Party, and King Gustav obliged him to tender his resignation as Prime Minister. An interesting story here, if we could get at all the details of it.

And the tenth report of the Police Commission of Inquiry, issued at Stockholm at the end of June 1932, declares that one of Kreuger's fellow-directors had accused M. Lofgreu, when he was Prime Minister of Sweden in 1927, of ' having advised Kreuger of methods of issuing debentures by which he could elude Swedish taxation.' In one year alone, 1928, Kreuger is alleged to have netted £830,000 from this debenture trick—whatever it was.

And the same report estimates that he, Kreuger, made a profit of £2,000,000 between 1927 and 1930 out of Belgian and French Government stocks.

Yet how silent the usually enterprising Press sleuth-hounds in Europe are about this graft in high places. Kreuger bribed the political parties and the Press in Sweden. Does any one believe that he abstained from similar corruption elsewhere ?

He induced government after government to give him a monopoly of the sale of matches. Does any one believe that this private ' enterprise ' was conceded the power to rob the nations without lavish preliminary distributions of baksheesh ?

In France, Kreuger found that the sale of matches was a State monopoly ; he could not get in there. But he procured a monopoly for the sale of match-

sticks from aspen wood, and he got his shares quoted on the Bourse. In return, he raised a loan of £15,000,000 in America for France.

He tried the game in Soviet Russia—sought her timber forests, but was refused ; could get no accommodation there ; and boiled over in wrathful Press *communiqués* when he found Russia underselling his matches by from 50 per cent. to 75 per cent. in price, in the neutral markets.

It was America that finally pulled him down, and there is a story, by no means an improbable one, that they tell in Wall Street of how it was done.

One group of bankers had urged President Hoover to propose a moratorium for a year upon Germany's State debts ; this meant that Germany would not pay interest or sinking fund upon Kreuger's £25,000,000 loan to Germany. Another group, which had lent millions of good dollars to Kreuger, strongly urged the President to exempt the Kreuger loan to Germany from the operation of his moratorium.

The non-exemptors won, and in March 1932 Kreuger, having to pay his creditors and finding his income stopped, and being unable to carry on a bluff with forged bonds any longer, ended his life of international piracy, chicane, and fraud with a revolver shot, in his flat at the Avenue Victor Emmanuel III, in Paris.

CHAPTER XIV

THE DISSIPATION OF BRITISH THRIFT

‘A fool and his money be soon at debate.’—TUSSEY, *Good Husbandry Lessons*.

‘We may be moving towards an era of world sanity in which international commerce will be less subject to the interests and juggling tricks of bankers and high financiers.’—Rt. Hon. D. LLOYD GEORGE.

IN previous chapters the reader has seen something of the almost incredible waste and loss involved during last century in the system of financier manipulation of our capital investments both in the home and foreign markets. Of the closing years of that century, 1890 to 1897, the Official Receiver reported :

‘There had been lost to the community and gone into the pockets of the unworthy no less a sum than £28,159,482 ; made up of losses of creditors dealing with companies, £7,696,848 ; and of the loss to the wretched contributories or shareholders, £20,462,633.’¹

But these figures relate to companies wound up by compulsory order only, and exclude all cases of loss by ‘reduced capital.’

The MacMillan Committee on Finance and Industry (1931)² selected the year 1928 for an examination of the results of investment in public companies in

¹ Quoted in *The Decay of Capitalist Civilization*, by Sidney and Beatrice Webb, p. 107.

² Cmd. 3897, p. 166.

the home market. During that year the British people subscribed £117,000,000 for shares and debentures in 284 companies. Two and a half years later, that is by May 31, 1931, the total market value of the £117,000,000 of shares and debentures had fallen to £66,000,000, a dead loss of 47 per cent. to the investor. Indeed the loss must have been much greater than that, because many of the shares were unloaded upon the investor at a high premium.

The MacMillan Committee go on to tell us that of the 284 companies in question, no fewer than 70 had already been wound up, and the capital of 36 others had no ascertainable value, the losses upon these 106 companies amounting in all to £20,000,000.¹ *Spurlos versenkt*. Sunk without trace! And the poor victims of the Hooleys, Hatrys, Bottomleys, and their kind, the poor victims who lose 66 per cent. of their investments in three and a half years, are befuddled into believing that it is the Socialists who would confiscate their capital!

In post-war years the speculator and the share gambler fastened on the Lancashire Cotton Industry, picked it clean, and then left it smothered under huge and impossible bankers' debts.² Professor Daniels in January 1928 told the Royal Statistical Society of 129 cotton companies with a paid-up capital of £19,000,000 which had been purchased by speculators during the cotton boom of 1920 for £38,250,000. Six months later the balance sheets of these companies showed loans of £17,000,000, bank overdrafts of 5½ million

¹ For a subsequent examination of these figures see the *Economic Journal* for September 1933, p. 453 *et seq.*

² *Lancashire under the Hammer*—Bowker (Hogarth Press). Also pamphlet by Zeph Hutchinson, secy., Bacup Weavers, *Hands off our Wages and Hours*.

pounds and debenture loans of £1,200,000. By the end of the year 1927 Mr. S. S. Hammersley, M.P. for Stockport, had to report in sorrow to the House of Commons that 200 mills were in the power of the banks and that 90 per cent. of these 200 mills were in the financial control of four banks.¹ The Balfour Committee on Industry and Trade reported that to the best of their knowledge the speculators had purchased many cotton mills at about eight times the paid-up share capital of the concerns acquired. Upon 210 of these over-capitalized companies dividends fell to an average of 1·3 per cent. per annum during the seven years 1921 to 1927, while in 65 cotton mill companies which had managed to escape the blighting hand of the reconstructing financier, dividends averaged, during the same period, the much higher figure of 8·7 per cent.²

The banks carrying the loans and the new shareholders carrying the inflated value shares turned with one voice and one accord, demanding that the workers in the cotton industry accept wage reductions as part of the common sacrifice, to make good the years that the locusts had eaten. That, as always, is the ritual in the wake of a reckless financial skinning of an industry.

The Balfour Committee, greatly daring, expressed the opinion that :

‘It is one of the most disquieting phenomena of recent years that shrewd business men should have allowed a great staple industry to fall so easy a victim to speculators and company promoters.’

¹ Speech, 19/12/27.

² Part II. of the *Survey of Industries. Committee on Industry and Trade*, 1928, p. 23.

It might have added some suitable commentary upon the fact that the new victimized proprietors had promptly taken whatever steps lay in their power to compel, through lowered wages, the workers in the industry to share their burdens.

And so far as our national investments abroad are concerned the fun is even more fast and even more furious.

The MacMillan Committee on Finance and Industry declared that 'in some respects the City is more highly organized to provide capital to foreign countries than to British Industry.'

There is, of course, a common and carefully fostered delusion that these investments of British savings in foreign countries always, and every time, serve British ends and British purposes, and that the export of credit always and every time goes out in the shape of capital goods to develop the World and increase the buying power of its peoples.

Neither of these assertions is true.

Our private speculators with our national credits and savings, have speculated and gambled in all manner of enterprises, definitely and demonstrably inimical to the interests and the national policy of this country.

In foreign armaments, in fortifying the Dardanelles, in rum-running, in cheap labour factories for the manufacture of jute cloth in Bengal, or for coir mats in Travancore, in bolstering up reactionary and oppressive dynasties—in a thousand such directions our national capital has been exported.

The Times on October 14, 1919, carried a two-column advertisement headed—

*'Chinese Government 8 per cent. Sterling Treasury Notes.
1925/1928.*

'Issued to Vickers Limited by the Chinese Government in virtue of an Agreement dated the First day of October 1919, the signature of which and its sealing by H.E. the Chinese Prime Minister has been officially communicated by the British Minister in Peking, through H.M. Foreign Office to Vickers Limited.'

The loan was issued under licence from the Treasury ; it was handled by Lloyds Bank, and the prospectus stated that the loan was for the supply of aeroplanes and aerodromes. Preferential consideration was to be given to applications from existing shareholders in Vickers Limited. The total amount of issue was £1,803,300 ; the rate of interest was 8 per cent., and only £98 was required to be subscribed for each £100 of stock.

Needless to say, this loan is in default. The investors' money is gone.

The armaments of foreign countries are a much-sought-after field for speculation by our finance houses. In 1909 we find Messrs. Vickers & Armstrong-Whitworth creating a subsidiary company in Japan, the Nippon Steel Works. But there were other firms competing for the armament orders of Japan, and our finance houses seem rather to have struck a bad patch in the Far East after the Japanese Naval bribery trials in June and July 1914, when the *Japan Weekly Chronicle* reported in full the extraordinary Mitsui case, wherein the Japanese Admiral Fujii was charged with accepting bribes to the extent of £40,000 from certain British armament firms.

From Far East to Near East ! About the same period our 'savings' were in part diverted to

strengthening the naval armaments of Turkey, as the following excerpt from the *London Times* (3/12/1913) bears witness :

‘ A contract was signed to-day with the Armstrong-Vickers group for the reorganization of the Turkish Naval Dockyards. The Government hands over to the Armstrong-Vickers group the Arsenal and Docks on the Golden Horn, with all the existing machinery and buildings. It likewise provides for a naval base at Ismid. The English group finds the capital for the exploitation of the works, and supplies the technical knowledge and control essential to the success of the undertaking.’

Relatives of the British men who died a couple of years later at the Dardanelles, please note !

Again, British ships were sunk and British lives were lost in the Mediterranean Sea during the War by torpedoes fired from Austrian submarines. But were not the torpedoes manufactured in what had been the Whitehead Works at Fiume, Hungary, and had not Vickers been large shareholders in the concern ? And did not Mr. Philip Snowden (as he then was) say in the House of Commons in the course of his speech on the Naval Estimates for 1914 that :

‘ Submarines and all the torpedoes used in the Austrian Navy, besides several of the new seaplanes, are made by the Whitehead Torpedo Works in Hungary. . . .

And here beside me, as I write, is a copy of the prospectus for a new issue of capital to the great Czecho-Slovakian Steel Corporation, the Skoda at Plzen. The date is March 1926 ; the issuing house is the National Provincial Bank in London : the capital wanted is £2,500,000 ; the rate of interest offered is $7\frac{1}{2}$ per cent. ; the money is wanted to develop what is described as ‘ the largest steel and engineering works in Europe in one ownership ’ ; in the prospectus we are assured that the Skoda manu-

factures steel ingots, castings, forgings, locomotives, gas engines, steam turbines, motor-cars, tractors, aeroplanes, and machinery of all kinds. So in 1926 our money went to Czecho-Slovakia to stimulate cut-throat competition with our already hard-pressed steel and engineering industries. And the British and Allied Investments Corporation of London underwrote (*i.e.* guaranteed) the issue.

In the same year, the German city of Hamburg applied for a loan of 6 per cent., offering £100 scrip for every £93 10s. paid, whereupon there was a rush for participation by the money lords of the London market ! The loan was subscribed several times over within a few minutes of the lists being opened.

And again in October 1926, Belgium applied for a loan, offering 7 per cent. interest and £100 scrip for every £94 paid. This time the City was frantic. It actually offered between £200,000,000 and £300,000,000, and one applicant alone offered £30,000,000.¹

But when in March 1926, the British Dominion of New South Wales sought a £4,000,000 loan at 5 per cent., she could only get one-third of her request ; and when in the following September she tried again, offering 5 per cent. and £100 scrip for every £97 paid, only 15 per cent. of her loan was subscribed by the Empire patriots of the City.

Sir Arthur Salter, K.C.B., lately Director of the Economic and Finance Section of the League of Nations, and (prior to that) Secretary to the British Department of the Supreme Economic Council, has released some not-to-be forgotten material from his *dossier*.² He tells us that in the two years, 1927 and

¹ *Manchester Guardian*, October 28, 1926.

² *Recovery*, by Sir Arthur Salter, K.C.B., pp. 101-5.

1928, which immediately preceded the depression, Germany borrowed from British and American investors over 2000 million dollars (say £400,000,000) or *more than five times the amount payable in reparations*. In the same period, South America and Australia were both heavy borrowers. And in an inquiry held subsequently by the Finance Committee of the American Senate the allegation was made that ‘\$415,000 has been paid to a son of an ex-President of Peru, for his assistance in floating loans of the total value of \$100,000,000 for the account of the Peruvian Government.’¹ Further references to the matter appear in the *Times* (23/11/33).

But to return to Sir Arthur Salter and his disclosures. That distinguished civil servant declares :

‘When hostilities broke out between Bolivia and Paraguay, both League members, in *December 1928*, their recent financial history was naturally looked into in view of the possibility of financial pressure being needed in accordance with Article 16 of the Covenant. An interesting fact emerged. Some little time before a foreign issuing house had arranged a substantial loan to Bolivia, nominally for the construction of railways and similar purposes. A few months afterwards it became known that the money had been expended, not on roads, but on armaments. In spite of this, a further loan was then arranged through the same issuing house when the last preparations were being made before the action against Paraguay. The point of this incident is not that it is exceptional but, on the contrary, that it is difficult to say that it contravenes generally accepted standards.’

And he sapiently comments that :

‘When a Government is tempted to rash adventure it is easy to realize how greatly the temptation may be increased if, at the crucial moment, a large loan is dangled before its eyes by foreign financiers.’

¹ *Times*, 9/1/33.

And here are other glimpses from Sir Arthur Salter of the glories of the dissipation of thrift system.

‘The investor is now suffering from the Brazilian Moratorium. He would find it instructive to inquire where his money had gone. Since the war, the Brazilian Federal Government, States, and Municipalities have issued long-term loans abroad amounting to about \$800 million. *These include sums provided in 1924 for the bodily demolition of a hill in Rio at a cost of about \$15 million ; \$25 million in 1922 for electrifying the Central Railway of Brazil, which has not been electrified ; \$20 million or more for a (Rio Claro) water supply scheme which has to all intents and purposes been abandoned in favour of another scheme.*

‘*The record of Columbia is even more instructive. Between 1924 and 1928, it borrowed about \$153 million. A large part of this was devoted to constructing a railway to connect two valleys separated by a range of mountains about 9000 feet high. There was no commercial justification for it, since both valleys had their own outlet to the sea. A very expensive tunnel through the top of the mountain range was begun and then abandoned ; and while the Federal authorities were driving a tunnel through the mountains the local authorities were making a costly road over them. I have had a vivid account from one who was in Columbia at the time, of the way in which the offers of competing lenders resulted in the public authorities incurring greater and greater obligations for these extravagant ventures. . . . Numerous operations of a similar, or worse, character could be quoted from the financial history of Europe in the last decade.*

And as Lord Beaverbrook stated in a public speech in Edinburgh in January 1932, our finance houses had been discovered borrowing in London at 3 per cent., lending to Germany at 8 per cent. (the astute Germans in turn lending to Russia and Austria at 12 per cent.) ; and when Germany was unable to repay, the City set up a unanimous demand that the British Treasury should cover up their (the City’s) disastrous speculations. And not only that, but with no little impudence they contrived to divert attention from their folly and greed by blaming the

resultant finance crisis upon the unfortunate unemployed and the extravagant weekly dole they were alleged to be receiving.

This admission by Lord Beaverbrook, that one of the prime causes of the panic of 1931 was reckless lending to Germany, had indeed previously been made in the Report on Empire Monetary and Financial Policy published jointly in October 1931 by the Federation of British Industries and the Empire Economic Union. There we were told that :

‘ Confidence in the stability of our position began to be shaken when it was realized how seriously the support we had given to various weak positions, more particularly in Austria and Germany, had depleted our own liquid resources.’

And the Royal Institute of International affairs published in 1933 a Report of an influential Committee under Sir Charles Addis ¹ which declared (p. 6) that Great Britain had gradually drifted ‘ into borrowing short and lending long, and so putting herself into a position in which she was no longer mistress of her own financial destiny.’

The precise amount of this short-term British money lent to Germany is difficult to discover. The *Monthly Review* of Lloyds Bank for October 1931, while minimizing as far as possible the effect of the locked-up British cash and credit in Berlin, admitted that there was a net amount of ‘ about £70,000,000,’ and that

‘ the fact that Germany was unable to repay London no doubt added to the general feeling of distrust.’

Mr. Beaumont Pease, the Chairman of Lloyds

¹ Oxford University Press.

Bank, addressing the Newark Chamber of Commerce in the succeeding month,¹ declared that the amount of British credit given by British bankers to Germany during the crisis had only been 'normal,' and he quoted the Basle Committee which showed that British credits to Germany amounted to 20·4 per cent. of Germany's total credits from abroad.

Subsequently the *Economist* put the frozen advances to Germany from the London Money Market at £58,500,000.

But there is ample evidence that even while the Labour Government was in the financial rapids and while there were steady press campaigns in full blast about an adverse trade balance, the London Money Market was quietly but persistently exporting credits to Germany.

On November 28, 1930, the *Times* explained how the German manufacturer was enjoying cheaper credit from the London Money Market than was being given on overdraft by British bankers to British manufacturers. That newspaper declared that out of £250,000,000 of acceptance credits given by London 'it is safe to assert that 75 per cent. is granted to foreigners,' and these foreigners moreover start with a credit of three months : when the three months have expired, they receive a renewal from another acceptance house ; when the second three months have expired, the credit is again renewed by still another acceptance house—and always at a lower rate than bank overdraft rate. By this method the foreign exporter is enabled to get a two years' credit from London and to give a two years' credit to his customers in other lands, and these facilities were granted the foreign exporter by the London Money

¹*Times*, 14/11/31.

Market at a total interest figure of 1 per cent. less than the bank overdraft rate of 5 per cent., the minimum rate upon which the British exporters were then operating.

The Times goes on to give a list of German and other continental exports which had been financed by the London Money Market 'during the past few months.' The list includes :

' Coal ; Steel ; Machinery (including locomotives, cranes, and ploughshares) ; Potash, Cement, Paper, Wood Pulp, Books, Hosiery, Cutlery, Shoe Leather, Fire Bricks, Furs, Watches, Champagne, and Sugar.'

This, of course, was all in the 'ordinary way of business.' And while it is true that much of our world trade is three cornered (or more than three cornered), silk from China to America being paid for by exports of cotton from Lancashire to China, and so on, the fact remains that British savings frequently finance foreign manufacturers upon cheaper terms than home manufacturers are financed. Moreover, there is an irresponsible selection of investment and frequently the selection is in direct antagonism to the national interest.

CHAPTER XV

REMEDIAL MEASURES : A NATIONAL INVESTMENTS BOARD

‘We do not hope to protect the born gull from the born crook.’ — ‘Britain’s Industrial Future,’ *Liberal Yellow Book*, p. 87.

‘I venture to challenge a denial from any responsible person acquainted with the public borrowings of the years 1926-8, of the assertion that, with the exception of loans recommended by the League of Nations and the Central Banks, the bulk of the foreign loans in these years to public authorities in debtor countries would better not have been made. . . . The dead weight of these wasteful loans was a major factor in causing the financial crisis of the same kind as reparations and war debts.’—*Recovery*, Sir ARTHUR SALTER, K.C.B.

DURING the Great War the Government set up what was called a Capital Issues Committee for the purpose of scrutinizing all offers to borrow money from the public upon long-term loan. This Capital Issues Committee, after consideration of an application for leave to make a public issue, made a recommendation to the Treasury that the applicant should be either granted or refused the right to make a public appeal. And the Stock Exchange having passed regulations to forbid dealings in stocks which had failed to secure a licence from the Treasury, there was, on the face of it, an effective national means of preventing the flotation of both unnecessary and fraudulent companies.

In February 1919, this Capital Issues Committee was reconstituted—

‘with a view to preserving capital during the reconstruction period for essential undertakings in the United Kingdom and to prevent any avoidable drain upon Foreign Exchanges by the export of capital, except where it is shown to the satisfaction of the Treasury that special circumstances exist.’

But in practice there was a heavy leakage, and Capital issues, forbidden on the Stock Exchange, were openly operated by outside brokers, to the manifest disadvantage of members of the Stock Exchange. And there were in addition allegations freely made that issues officially prohibited in Britain were floated on the Continent and their shares thereafter peddled in this country. Instead, however, of seeking to plug up the holes in the control system, the Government weakly abandoned its supervision of the Home Capital Market altogether and threw the Market open again to every adventurer and speculator who came along with a rubbishy flotation. The results in post-War boom years we have already seen—hundreds of thousands of British investors picked bare by rogues and cheats.

So far as long-term loans abroad are concerned, the Treasury has, however, struggled to maintain a sort of unofficial embargo exercised through the Governor of the Bank of England. Applications submitted to the Governor are shown to the Treasury, and if the Treasury objects, the Bank of England refuses ‘facilities.’ But this indirect, third-party, persuasion system is insufficient and inadequate ; despite it, large volumes of money have been invested abroad at times when the investments were patently against the national interest. As an example, in the first six months of the year 1931 when the Government was seriously concerned that

the Exchanges were going against the country and while the unemployment figures were clearly on the increase, nearly two-thirds of the issues in the London Capital Market were for overseas account—£9,000,000 for foreign loans and £35,500,000 for Indian and Colonial loans. During the previous year, 1930, foreign loans on the London Capital Market were £35,500,000, Indian and Colonial loans £61,500,000, and in addition £15,500,000 of overseas loans were introduced on the Stock Exchange ; a grand total for the year of £112,500,000. Yet, according to the Board of Trade, our balance on international account, i.e. what sum we could afford to lend overseas in 1930, was only £39,000,000 ; and in the first six months of 1931 it was nothing at all.

In an endeavour to grapple with some of the evils of the great post-War money ramps, the Liberal economists, notably Mr. J. M. Keynes, proposed the formation of a National Investment Board.¹ This Board, as the Liberals conceived it, was to be formed of a committee of State nominees functioning under the general direction and control of the Chancellor of the Exchequer (in effect the Treasury), and its primary duty was to be the collection into one single fund of all the capital resources presently in the hands of various Government Departments, and including the assets of the Post Office Savings Bank and the National Insurance Funds. The Board was also to issue State bonds at lower interest rates to supplant the existing higher interest-bearing national debt. It was to finance all the Government Departments, allocating to each (or rationing each with) such proportion of the pool as the Government might decide. With whatever new monies might be invested with it through the Post

¹ See *Britain's Industrial Future* (Benn), pp. 111 *et seq.*

Office Savings Bank and other channels, it was to finance public utility corporations, agricultural credit corporations, land banks, railroads, building societies, co-operative societies, garden city companies, and the like, upon 'terms to be mutually agreed.'

But curiously enough there was no mention of the financing of municipal loans, although after the Hatry adventures in Municipal Finance, some at least of the Local Authorities would seem to be as much in need of an adequate supply of cheap credit, and as much in need of protection from crookery in the money market in the procuring of it, as are Public Utility corporations, Building Societies, and the Garden City companies.

Finally, as the Liberal economists visualized the scheme, the National Investment Board was to have power of selection and veto over the issue of public loans for oversea countries.

While Mr. Keynes and his friends are entitled to full credit for the work they did in formulating their scheme for a more rational use of our national savings, the functions they proposed for the National Investment Board were so limited as to be open to many serious practical and economic objections. To begin with, they omitted to place in the forefront, the safeguarding and protection of the small investor from the shark, through a visaing of the new capital issues; they omitted to safeguard the municipalities (the biggest public borrowers): they unnecessarily interfered with the work of the National Debt Commissioners; and their proposal to issue National Investment Bonds for all sorts of enterprises not State owned, would speedily land any Government which sought to operate the proposal in a vast crop of credit trouble.

But the Liberal economists certainly popularized the

idea of a reasoned and directed planning of the capital resources of the nation, and even some of the leading defenders of the present system of private enterprise speculation with other people's money swung round to support them. Thus Mr. Hartley Withers declared that if the choice lay between the provision of capital facilities for engineering and shipbuilding, and

‘a company that wants to start an aeroplane service between London and Brighton for the idle rich.’

he was all for engineering and shipbuilding.¹

And at a later date when the Labour Party had adopted, or rather adapted, the scheme, we find Mr. W. W. Paine, a director of Lloyds Bank, writing in the *Banker* for November 1928 giving strong support for some interference with what he describes as

‘The waste of our national resources by the many wild-cat schemes with which we are now familiar.’

Mr. Paine feels ‘some sympathy’ with the Labour Party's demand for—

‘such changes in the banking and financial system as will secure that the available supply of credit and savings shall be used for enterprises of national advantage as distinct from those which are useless or socially injurious.’

That demand is for a ‘laudable object.’ And he sees going on around him ‘the promotion of such undesirable ventures as greyhound racing associations and similar enterprises which are a hindrance rather than a help to the creation of national wealth.’

It happens ‘not infrequently,’ he adds, that when one bank in the public interest refuses ‘to allow its name to be associated with an issue’ another bank ‘is perfectly ready to take its place. Such is the stress of competition’ !

¹ *War-Time Financial Problems*, Hartley Withers, p. 103.

And so something must be done, he concludes, to remove—

‘some of the attractions by which unscrupulous promoters inveigle the more ignorant sections of the community into investments which are neither for their own nor the Nation’s good.’

But not, a National Investment Board. No, not that. The Nation must not be permitted to interfere so far as to place ‘any undue check upon enterprise or even upon speculation.’ The farthest Mr. Paine is prepared to go is to set up a joint-committee of the banks and the Stock Exchanges with power to placing an embargo upon any undesirable issue of new capital. It would be for the City and not for the Nation to decide. Mr. Paine does not go far, but he moves.

In recent years the Labour Party has taken up the running for a National Board of Investment, and there have been an almost infinite variety of suggestions as to the functions which ought to be entrusted to such a Board. Possibly circumstances which we cannot yet visualize will determine the powers which a Labour Government would propose to give an Investment Board. But it is already clear that whatever backing a Board would receive from the general public would arise largely from any powers it possessed to examine prospectuses and withhold certificates from crooked companies or from companies where the promotion and goodwill expenses, being unduly heavy, would be likely to sink the concern and lose the investor his capital, or from a company whose objects would be patently injurious to the National Interest.

If a licence or certificate were refused by the Board, the promoters could be compelled to announce that they had been refused, and investors who thereafter

'plunged' upon the stock would do so at their own risk. Furthermore, the refusal of a certificate by the National Investment Board would of itself be a serious handicap to a company and cause it to pay more for its capital.

But the Board would give no guarantee of soundness of administration, or of certainty of dividend ; it would accept no financial responsibility to the investor ; all it would do, and all it ought to do, would be to warn the investor betimes. Mr. E. H. Davenport, in the *New Statesman* (10/10/31) tells us that in the promotion of the average new company, some 10 per cent. of the capital goes in the expenses of the issue and 50 per cent., not in providing new capital, but in making a present to the promoters and vendors of cash for the purchase of 'existing rights.'

A Board of National Investment would, however, surely refuse licences on grounds other than suspected fraudulency or overheavy gratuities to the vendors ; for example, (a) it could refuse a licence on the ground that there was already a sufficiency of capital in the particular business or industry for which the new company was being promoted ; or, (b) that it was undesirable in the national interest to divert the available public savings in a particular year to, say, a greyhound racing corporation, while Oil from Coal was starved, or to a Vickers Aeroplane loan for the Chinese War Lords while so many of our water supply arrangements were dangerously insufficient. Mr. E. H. Davenport has described for us ¹ the hurtful effect of superfluous flotations upon an industry. How

'the promotion, for example, of unnecessary silk companies brought about such an excess capacity of plant that Courtaulds

¹ *New Statesman*, already cited.

had to embark upon a policy of cutting prices to an unremunerative level in order to force the redundant companies into liquidation and their plant on to the scrap-heap. Much the same occurred in the safety glass and gramophone industries.'

There can only be a certain proportion of savings available annually for new public issues whether foreign or domestic. Mr. Davenport declares that about 38 per cent. of the national savings are normally ploughed back by employers and companies as undistributed profits in their own businesses ; then there are building societies and mortgage institutions which gather savings for special and specific purposes, e.g. for the building of houses for their members. These two, the reinvestment in the employers' business and the saving for the specific purpose, absorb between them about half of our annual national savings. The long-term capital market takes the other half, and here there is no control, no regulation, no sense of priority or consideration of national advantage or usefulness. Simply chaos and anarchy. As Mr. Davenport says :

'The company promoters and the issuing houses float just as many issues as they think the investing public will stomach.'

Municipality may be bidding against municipality and public utility against public utility, while some crook operator or some foolish operator empties the market and raises the rate of interest for the bona fide undertaking.

But if the new capital issues in the home market are more or less a chaotic scramble in a mist, with the nation and the municipality and the investor all bad losers, what of the new capital issues for overseas ? Sir Arthur Salter from his unrivalled perch at the Finance Department of the League of Nations has witnessed the sheer folly and waste of the foreign loan

as it is manipulated and juggled with to-day. He assures us that, in two years, the bulk of all foreign lending to public authorities in debtor countries (outside the loans recommended by the League of Nations and the Central Banks) was completely and irretrievably lost.

Sir Arthur Salter urges strongly that the control of foreign lending to Government public authorities should be an international control and ought to be vested in a Joint Committee under the auspices of the League of Nations. Certainly international control would tend to prevent an international scramble among borrowing nations for foreign capital, and would possibly do much to limit wasteful expenditure upon armaments.

But before there can be any international decision, clearly there must be some national estimate of what amount a nation can afford to lend, either for home or foreign issues or both, in any given period. It ought to be the business of the National Investment Board to make such an estimate, and having made it, to do its utmost to see that the capital market monies were not allocated recklessly as they are so allocated to-day, a superfluity to one industry, a scarcity to another, a glut in gramophones and nothing for piers and harbours !

Every British Government in recent years has been at its wits' end to know what to do with the derelict industrial areas. There great public investments of capital are already sunk in water and in drainage : in houses, railways, gasworks, shops—and amid a miserable, cowed population with its hands in its pockets and no prospect of anything but a continuance of public assistance. There must surely be a considerable number of instances where a National

Investment Board, perhaps by threatening to forbid otherwise the issuance of licences to public companies to raise capital, might usefully divert new industries into the derelict areas, and by so doing save vast populations from ruin, and many millions of usefully invested money from complete loss.

If and when a National Investment Board had been satisfied that the capital necessities of the home market were adequately settled, there could then be allocations recommended for the Dominions and the Colonies, and when domestic and Dominion and Colonial needs had been met, the Board, in association with the Finance Department of the League of Nations, could then allocate what savings remained to foreign markets.

It is no use saying, as some muddle-throughers do, that the nation would not be likely to succeed in any attempt at the substitution of national planning for private anarchy, and that anyhow capital will always flow where it gets its best return. That is simply arrant nonsense. Even to-day (1934) the Treasury restricts public lending to foreign governments, and induces the Bank of England to make things as difficult as possible for British lenders desirous of placing a new loan abroad, unless the Government is satisfied that the loan is in the British National interest. In April 1933 the Government only gave approval to a loan of £1,000,000 for the construction of a bridge in Denmark upon condition that materials for the bridge were purchased in this country—a most reasonable and sensible stipulation !

To the extent then that the Governor of the Bank of England, on behalf of the Treasury, seeks to interpose limitations and priorities upon foreign lending, there is already interference with the 'natural flow' ;

and to the extent that the Governor of the Bank of England to-day fails to prevent undesirable capital investment abroad, there is manifest need of a National Board with more than 'unofficial' powers.

Nor can it be reasonably argued that capital investment will always go where it gets its best return. For effective answer to such a contention listen to the annual wail of the Council of Foreign Bondholders, or read Sir Arthur Salter. And it is, I believe, a fact that when the Credit Anstalt Bank of Austria collapsed in 1931 and a creditors' meeting was called in London, every single bank in the City was represented; so that it would appear as if they had all been separately and successfully tapped by the Viennese; all had lent and all had lost.

There are, however, some writers who believe that a National Investment Board in order to be completely successful must do more than (a) warn private investors against booby traps, and (b) exercise control of capital investments in the national interest. Such a Board, these writers argue, would require to exercise in addition at least indirect control over the long-term investments of insurance companies and building societies, and over the undistributed profits of industrial companies.¹

There are still other writers who draw attention to the necessity for national control of the system of 'private placings' whereby a financial house in London may buy up a complete capital issue of some new company, hawk it round the insurance companies, banks, &c., and then, through the medium of a friendly stockbroker, get the stock officially quoted and dealt with on the Stock Exchange. There were

¹ See, for example, *The Control of Investment*, by Colin Clark (Gollancz).

£15,500,000 of such 'private placings' in 1932. No Investment Board could be completely successful in safeguarding the investor and the national interest so long as there remained such wide-open breaches in the walls, and while so many opportunities were still left for the financial raiders.

Nevertheless, assuming that our control of new capital issues at home, and of long-term loans abroad—the latter through an international League of Nations organization—can be made effective, we shall surely have gone a long, long, way to canalize our savings, including the invested funds of insurance companies, building societies, and commercial companies, into channels of public usefulness; and beyond a doubt we shall have greatly limited the area of anarchy and chaos in long-term financing. Whatever further steps then require to be taken will be so much the clearer.

Moreover, as we shall see in succeeding chapters, the National Investment Board does not stand by itself as a complete policy. There are other proposals—municipal banking, a rapid development of the Post Office Bank Service, a national ownership of the Bank of England—and these proposals would still further limit the area in which High Finance disports itself. And we may as well face the fact that we shall but multiply, and that unnecessarily, our initial difficulties if we attempt to throw in as extra campaign luggage, a compulsitor upon public companies to invest their reserves in such a manner as they, the companies, do not approve and will strenuously and desperately resist.

The National Investment Board is designed to lessen the opportunities for robbing and plundering investors. It is designed to secure priority in finance for our essential industries. It is designed to eliminate crises and panics; at any rate, it is designed to eliminate

such proportion of these crises and panics as can be traced to the flooding of our national savings upon concerns and enterprises where further capital expansion is clearly unnecessary, or where it is undesirable in the British National Interest. And such a Board we might get in the present state of public opinion. It is the first and most immediately necessary step in the march of mankind against anarchy. Let us take that step.

CHAPTER XVI

REMEDIAL MEASURES : A STATE-OWNED BANK OF GREAT BRITAIN

‘ The Weekly Return is the only statement of accounts which the Bank of England publishes . . . this is really very remarkable. There is no balance-sheet, no revenue account, no Annual Report—there is nothing whatever.’—Sir Joseph Burn, *Stock Exchange Investments : Lectures to Institute of Actuaries* (1908), p. 25.

‘ The dogs bark : but the caravan passes on.’—Rt. Hon. MONTAGU NORMAN, Governor of the Bank of England (4/10/33).

‘ When a bank lends, it creates credit out of nothing.’—*Trade Depression*, p. 4, R. G. Hawtrey (Assistant Secretary to the Treasury).

AT the heart of the great skin game sits the Bank of England. Here is the very citadel of the Money Power. An anachronism in the twentieth century surely—a private profit company but not obliged like other companies to file the names of its shareholders and their holdings with the Registrar of Public Companies : a private company whose ‘ Board of Directors is self-electing,’ and whose older members form themselves into ‘ a standing committee of indefinite powers ’ against their younger colleagues : ¹ a private company which possesses, apart from certain limited note issues by Scottish and Irish banks, a complete monopoly of the right to issue money notes in Great Britain : a private company which has the power to lend, and has in fact so lent, British credits to foreign countries—credits not infrequently used for the creation of rival

¹ *English Public Finance*, Harvey E. Fisk.

industrial enterprises to British enterprises : a private company whose directors, meeting in secret, can at its sweet will lower or raise the rate of interest for the loan of money to British industries : a private company of money lenders and money dealers placed in charge of the administration of British war loans, and indeed of every form of British State debt : a private company about which Members of Parliament are forbidden to put questions on the order paper of the House of Commons : a private company with such wide powers over the lives and futures of men and women as monarchs neither possess nor seek : a private company which holds the cash reserves, 85 per cent. to 90 per cent. of their total deposit liabilities, of the commercial banks, and, holding these reserves, is enabled to fix the volume of credit which, from time to time, is made available for industry. The Bank of England is therefore a private company which has the supreme power of declaring whether prices of goods will be deflated, wages lowered, and unemployment intensified, or alternatively whether prices will be inflated and every one with a fixed income suddenly find his income diminished in value through a price rise ; a private company which, by its operations in bills or securities, buying or selling stocks in the open market, increases or decreases the market supplies of cash, ' thus permitting an expansion or compelling a curtailment of the volume of credit ' ;¹ a private company with a capital of £14,500,000 upon which for each of the sixteen years prior to August 1921 a dividend of 10 per cent. was paid ; in which for the succeeding year (1921-2) a dividend of 11½ per cent. was paid : and in which for the period 1922 to 1932 there was an annual dividend of no less than 12 per cent. One might add,

¹ *Central Banks*, Kisch and Elkin, p. 107.

as an additional point of interest, that the Bank of England is a private company whose governor when he goes on foreign travel, does so *incognito*, under the not wholly inappropriate cognomen of 'Professor Skinner' !

It is not suggested that the Bank of England is either inefficient or corrupt. On the contrary, by common consent, it is one of the most efficiently conducted business machines in the world ; its Court of Directors, as it is called, has had the wit to co-opt men like Sir Basil Blackett and Sir Josiah Stamp ; its clerical staff is employed upon a Civil Service basis ; and there has never been a whisper—certainly not the production of any proof—that the individual merchant bankers who dominate the Board have made illicit personal use of their prior knowledge of Government projects and intentions.

But it is nevertheless impossible in the twentieth century for a democracy to permit financial domination by a handful of City financiers ; and it is intolerable that these financiers should be left in a position to thwart and obstruct the government of the day whenever that government is bent upon removing any privilege or injustice in the State. Mr. Gladstone in his day suffered much at the hands of the Bank of England. In his own words :

' From the time I took office as Chancellor of the Exchequer, I began to learn that the State held in the face of the Bank and the City an essentially false position as to finance. . . . The hinge of the whole situation was this : the Government itself was not to be a substantive power in matters of finance, but was to leave the money power supreme and unquestioned. In the conditions of that situation I was reluctant to acquiesce, and I began to fight against it by financial self-assertion from the first, though it was only by the establishment of the Post Office Savings Banks and their great progressive development

that the finance minister has been provided with an instrument sufficiently powerful to make him independent of the Bank and the City power when he has occasion for sums in seven figures. I was tenaciously opposed by the Governor and the Deputy Governor of the Bank, who had seats in Parliament, and I had the City for an antagonist on almost every occasion.' ¹

Mr. Lloyd George, too, gives his testimony :

' These men (the City of London financiers) . . . establish a veto upon every proposal which is made for national development. We got rid of the veto of the House of Lords. Take care that you do not establish a more sordid one. If you go to the City of London, what is their only remedy for depression ? Their only remedy is by placing artificial barriers to prevent Plenty from reaching Want.' ²

And in a press interview he added :

' The City is the stronghold of reaction. All the time when I was Chancellor of the Exchequer up to 1914, I had to fight the City. . . . Talk about public control. It was that that saved the City in 1914. No Government will ever get a big programme through unless it is prepared to face up to the reactionary money interests in the City of London.' ³

The main defence we have ever seen advanced for this control of our national savings and credit by a small secret private company of financiers is that the nation and its elected representatives being too unfit, too unintelligent, and too corrupt to own and control their own Central Bank, the small company aforesaid patriotically step forward and (for a modest 12 per cent. profit plus salaries) take control of our debts and credits from us.

But in most other industrial countries the State controls its own financial business without provoking the disasters which the Money Power here declares would

¹ Morley's *Life of Gladstone*, Appendix, vol i. pp. 650-1.

² Speech, House of Commons, 12/2/31.

³ *Forward*, 7/6/31.

assuredly arise from State ownership of the Bank of England.

The Bank might well, by the way, be re-christened the Bank of Britain when the old monopolists are given their pension books and told to go home.

The Central Bank, the Riksbank, in Sweden, is state-owned. So is the Bank of Russia state-owned, as it was state-owned under the Tsars for a century or more. So are the Central Banks of Finland, Latvia, and Czecho-Slovakia. So is the National Bank of Bulgaria, the Banco De La Nacion Argentina, the Commonwealth Bank of Australia, the Bank of Uruguay, and the Bank of North Borneo.

In Turkey, Estonia, Columbia, Mexico, and Bogota, the State is part proprietor of the Central Bank. The Department of Overseas Trade Report for 1932 declares that the Turkish Government holds all the 'A' shares in the new Central Bank. This Bank, which began operations on October 3, 1931, showed a profit on its first year's working.¹

In Norway, Spain, and Chili, the Government nominates three directors. In Switzerland a majority of the members in the Central Bank directorate are nominated by the Federal Council of State. New Zealand has just decided to acquire similar powers of nomination.²

In Denmark, Holland, Poland, Greece, Hungary, Austria, Japan, and Rumania, the Government appoints a Commissioner with supervisory powers over the Central Bank. In the United States all net profits,

¹ The *Observer's* correspondent at Istanbul reports (3/12/33) that 'The State-owned Sumer Bank has Ismet Pasha's favour, and aims at bringing the widest possible proportion of National activities within the scope of immediate State control.'

² *Economist*, 30/12/33.

after a dividend of 6 per cent. has been paid, go to the United States Treasury.

Apparently only in Great Britain and Germany among the great nations are the Central Banks completely private enterprise concerns without even State nominees on the directorate and without statutory limitation of profits ; in the case of Germany this divorce from the State is clearly due to pressure from the greater Powers and the International banking groups.

Russia is rather in a category by herself. The State Bank of the U.S.S.R. has functioned since 1921 ; and in 1922 it received the right to issue chervontzi (gold-backed bank notes). Its only capital to start with was a depreciated paper currency ; but by March 1, 1932, it had accumulated a reserve of 372,000,000 dollars, backed by gold, platinum, and stable foreign currency ; and in addition it had a capital of 296,000,000 dollars. The system in Russia differs from the system elsewhere, because practically the entire trade of the country is in the hands of, or is controlled by, the State, and since the Credit Reform Act of 1930 in Russia, the State Bank has provided credits not to the selling organizations, but to the buying organizations in the country. If not consumers' credit exactly, it is credit given to organizations which purchase rather than organizations which produce. Until recently there was a small private industry for profit still operating in Russia, and that industry was catered for by Mutual Credit Societies or banks. On January 1, 1929, there were 223 of these Societies in existence, working with assets of 34,000,000 roubles.¹ But the private trade and

¹ *Economic Review of the Soviet Union*, 15/10/29, 15/11/29, and 15/8/32. *Bank for Russian Trade Review*, January 1928 and June 1930, and *British Russian Gazette*, October 1931.

the private banking that financed it is now no longer permitted.

In Sweden and in the Argentine—to take only two tests, one in Europe and one in America—there is no evidence whatever that State ownership of the Central Bank has been other than highly beneficial to the nation.

The Sveriges Riksbank, or Bank of Sweden, is completely state-owned.¹ Ever since 1807 the Government has appointed the chairman of the Bank, but the other six directors are appointed by Parliament. The Bank has sole control of currency, and our Department of Overseas Trade reports annual profits (on a paid-up capital of 50,000,000 kronen) which averaged annually in the years 1925-9, over 18,000,000 kronen: all these profits being used in the State Budget for relief of taxation. Every political party in Sweden accepts the State Bank without question, and would as soon think of handing it over to a private profit group as it would think of handing over the Swedish navy to a shipping company.

The State Bank of the Argentine Republic has been completely in Government ownership since 1904. Its annual profits are equally divided into new Bank Capital and the Reserve Fund. But profits are a secondary consideration to the promotion of trade.

The Times Trade Supplement for June 18, 1927, declared that not only is the Banco de la Nacion in the Argentine wholly state-owned but the Government of the Province of Buenos Aires holds half the capital in the Banco de la Provincia de Buenos Aires, and these two banks between them carry 55 per cent. of the total deposits of the Republic and transact 50 per cent. of the loan and discount business in face of the

¹ Established in 1668. *Banker's Almanac*, 1933-4.

most strenuous competition from European and American banking companies. The Banco de la Nacion with its 230 branches and agencies has as its established policy the assistance of trade and commerce : it operated, as *The Times* noted, 'on terms which do not profess to be chiefly with a view to profit-making.' Yet it made profits. And the Banco de la Provincia in the year 1926 made net profits of 6½ million dollars. The Banco de la Nacion was run to aid the nation and its citizens 'in case of need.'

In 1928 *The Times Supplement* was even more flattering in its comments. The Argentine's banking position now 'depends upon the strength and good guidance of the Banco de la Nacion,'¹ and the Bank is 'untrammelled by the necessity of earning dividends.' Moreover, it has 'fulfilled its delicate functions with wisdom and tact,' and was 'well managed' by a directorate of 'safe and responsible men' who were safe and responsible even although chosen by Government. Our Department of Overseas Trade² comments for the year 1932 that conditions in the Argentine had been difficult : some of the company banks had survived with difficulty, but the Bank of the Nation took most of the strain and 'now does nearly as much business as all the others together.' *The Bankers' Magazine* (September 1928) admits that the Argentine State Bank has been 'operated with a view to rendering the greatest assistance to the trading community.'

The prophecies of flights from the pound and the prophecies of political misuse of the Central Bank under nationalization which the Money Power issues periodically to the Press are thus proven, where the allegations can be tested, to be absurd and erroneous. They are

¹ *Times Trade Supplement*, June 30, 1928, p. 21.

² Report, 1933, p. 35.

worse : they are impudent, for they assume that men who act for the State will act corruptly or foolishly, whereas men who work the lining of their own pockets will not ; they assume that the British people is so hopelessly stupid, gullible, and corruptible that it must not be permitted to nominate the controllers of its national credit or to control the management of its own debt-books, but must needs be elbowed aside by a small sub-committee of bankers and their nominees who graciously declare for themselves and their fellow-shareholders a dividend of 12 per cent. per annum in addition to their supervisory salaries.

One other argument sometimes used against state ownership of the Central Bank in Britain, that needy governments might repair to a state-owned Central Bank for easy money by inflation,¹ is easily countered. In the first place, needy governments desirous of inflation will impose their will upon Central Banks of issue anyhow and whether their banks are publicly or privately owned ; in the second place, the State Treasury to-day has the statutory right under the Currency Bank Notes Act of 1928 of authorizing an increase or a reduction in the fiduciary note issue—that is, the issue not backed by bullion or specie—and can authorize the change for two years without consulting Parliament ; and in the third place, it would be an easy matter to prescribe regulations for publicity in all Government borrowings from the bank—which publicity would enable Parliament to keep the Treasury advances and balances under close review.

But what is the State to do with control of the Bank of England when it secures that control ? Is the present credit policy to continue unchallenged and the only observable gains be some saving in dividends and a more

¹ See *Central Banks*, Kisch and Elkin.

efficient regulation of the speculators and financial adventurers through the Bank of England's grip upon the overdrafts and loan investments of the Joint Stock Banks, and through the Bank's grip upon the operations of the Discount Houses? These are indeed in themselves great gains and may carry us far to a rational national use of our savings. But, even so, are they enough?

Must we not also arrange for a dispassionate and an exhaustive examination of the results of some previous issues of public credit for public purposes? And, at the same time, must we not consider fully the various proposals presently being canvassed up and down the world for a better use of the credits which we can now secure upon our increased capacities to produce wealth?

(A) THE DOUGLAS SCHEME

The Scheme for supplying social credit to consumers, propounded with gathering enthusiasm by the followers of Major C. H. Douglas, ought to be impartially examined.

Unfortunately Major Douglas has seen fit to recommend his scheme to the opponents of the Labour Party as a barrier to the Labour Party's Socialist programme, and naturally, therefore, his scheme stands heavily prejudiced in the eyes of vast sections of the working classes. In the *Nineteenth Century Magazine*, for example, March 1925, Major Douglas declares that a grasp of his proposition 'is the most formidable menace to orthodox Socialism with which that doctrine can be confronted.' But it would not appear as if Major Douglas has attracted thereby any countervailing support from the bankers and their political friends. Indeed, politically he seems rather to have contrived to make the worst of both worlds.

His proposal—if one may attempt a brief bald summary of it—is that the steadily increasing productivity of the nation should reach the citizens in the form of a direct dividend from the State. Having received their social credit dividend tickets (there is to be a close actuarial estimate of the amount of the increased production of goods during the year) the consumers take their tickets to the shops ; the shopkeepers then reduce their prices of the goods sold by the amount of the social credit tickets which the customers hand over to them ; and these social credit tickets will in due course reach the Bank of England where they will be cancelled—simply written off—at the order of the State.

The theory is that this increase in consuming power will not involve inflation of the price of commodities, because there has been in fact a reduction in price at the point when the shopkeeper sold the goods, and this reduction is passed up through wholesalers and manufacturers until it reaches the Bank of England.

The shopkeeper reduces his payment to his wholesaler by the amount of his social credit tickets : the wholesaler similarly reduces his payment to the manufacturer by the amount of his social credit tickets : the manufacturer gets credit at his bank for his tickets : and the bank gets credit at the Bank of England for the tickets it hands over. What has occurred is that an increased purchasing power in a given period has been passed on to the consumer, and through the consumer's increased demand for goods has stimulated employment, instead of, as is the case to-day, an increased productivity in boots, cheese, umbrellas, or anything else, resulting in a glutted market and unemployment.

The Douglas proposals have attracted considerable support in Canada, Australia, and New Zealand, and

a recent (1934) tour in these Dominions undertaken by Major Douglas was conducted almost as if it were a religious 'revival.' He received official civic receptions and had a tremendous press and wireless publicity. No doubt the vast crowds who turned out to cheer him and welcome him as the greatest economic discoverer of the century, had not the faintest understanding of his A + B theorem or of his argument about the flaw in the present price system. But these, after all, are matters upon which the crowds could hardly be expected to construct a reasoned opinion. What is impressing hundreds of thousands of people in the world is the Douglas proposal for a national dividend whereby the increased productivity of man and machine can be readily distributed to consumers, and not, as to-day, permitted (first) to glut markets, and (second, and because of the glutted market) to limit production and throw the producers unemployed and among the non- (or limited) consumers.

We are all familiar with the idea of a dividend by the Co-operative Societies. Every increase in efficiency presumably adds to that dividend. Why cannot every increase in efficient production similarly add to a national dividend and be distributed to the citizen consumers? And if the claims of Major Douglas—to have worked out a technique whereby such a distribution of a national dividend can be made without an inflation of the price level—are justified, then he has undoubtedly performed a service to humanity which entitles him to rank with Watt and Lister. True, the Douglas proposals do nothing to socialize ownership of the land and industrial capital—although they involve the national ownership of the Bank of England—and it is equally true that they do nothing to plan and organize national effort for national services, but

if they provide, as their author claims they do, a workable method of distributing the produce of a machine age, then no government, whether Capitalist or Socialist, in the twentieth century can afford to ignore them.¹

(B) THE LIVERPOOL NOTE ISSUE

In the black year of 1793, the City Council of Liverpool had to face a serious situation arising out of a complete collapse in the local private banking system. Employment was suspended, and shopkeepers had to shut their shops.

On March 20, 1793, the Mayor reported that fifty-eight leading merchants had begged the Council to procure a loan from the Bank of England to enable the City to tide over the distress which had engulfed the people.

The Council agreed, and asked the Bank of England for £1,000,000 for fifteen months.

This request was refused by the Bank, but the Council's deputation to London induced Parliament to give them instead a special Act entitled—

'An Act to enable the Common Council of the Town of Liverpool in the County of Lancaster on behalf of and on account of the Corporation of the said Town to issue negotiable notes for a limited time and to a limited amount.'

¹ For Douglas Scheme proposals, see Major Douglas's own writings, e.g. *The New and the Old Economics*; *Economic Democracy* and *Credit Power and Democracy* (Palmer); also *This Age of Plenty*, by C. Marshall Hattersley (Pitman); and, from a Socialist point of view, *Money and Wealth*, by Louis Anderson Fenn (Williams & Norgate). Mr. Fenn, however, draws attention to the fact that consumer's credits alone will not do anything to promote a better planning or reorganization of industry. For Socialist criticism of Douglas, see *Foundations for the World's New Age of Plenty*, by Fred Henderson (Gollancz).

By this Act Liverpool could issue, 'for value received or other due security,' notes of £100 and £50, to run for two years from May 25, 1793.

These notes carried a rate of interest of £4, 11s. 3d. per annum. In addition, there were issues of £5 and £10 notes to run for three years. These notes of smaller denomination bore no interest. The total issues were restricted to £300,000.

There was a daily meeting of the Committee in charge of the issuing department, and we are told that the notes 'seem to have been freely accepted in ordinary transactions.'¹

On February 28, 1795, the amount of notes on issue reached the figure of £140,390.

Traders got advances on cotton, flax, silk, tallow, wine, timber, mahogany, pigments, iron, potash, coffee, hops, lead, whale oil, tar, copal, bills of exchange, business premises, ships on the stocks, and the security of the Alt rates, but a request for a loan by Mr. David Paton and others, on the security of the Scots Kirk, was declined.

At the end of the period of the Act—

'It was determined to apply for an extension; but the request though forwarded was not hotly pressed, and its refusal neither excited resentment nor led to any serious consequences.'

As a result of the municipal note issue, however, the panic was stayed, failures were prevented, and the whole sum, with interest, was within three years recovered without loss.²

¹ *Economic Journal*, 1896, pp. 484-7, article by E. C. K. Gonner.

² See also references to subject in *English Local Government*—Vol. 'The Manor and the Borough,' Sidney and Beatrice Webb, p. 485. There the incident is described as 'the boldest financial step recorded in the annals of English Local Government.'

(C) THE GUERNSEY EXPERIMENT

A century ago the propaganda speeches of the Radicals and the Co-operators were interlarded with references to experiments in the Channel Islands, where at Guernsey, a public market, schools, and a college had been built, a church repaired, and roads and coast preservation works made, all without any charge for loan interest. The most elaborate accounts of the Guernsey experiment are to be found in a London School of Economics Study, *Communal Currency*,¹ and in a survey of the accounts published by the *Jersey Evening Post* on February 9, 1933.

In 1815 the States (that is the local Parliament) of the Channel Islands were recommended by their Finance Committee to acquire property and build a public market, repair a church, and make roads, and to finance these schemes by the issue of local notes to the value of £6000.

The notes were to be 'printed on the best paper . . . and from a plate engraved by the best artist, each note numbered and bearing the signatures of three men well known on the island.'

On October 17, 1816, there was a first issue of these Guernsey notes to the amount of £4000, 'for coast preservation works, Torteval Church, and Jerbourg Monument.' The notes were to be redeemed and destroyed, so many every Saturday, and were to be completely taken off the market by April 15, 1818.

In May 1820 the famous markets scheme was begun, £4500 of notes being issued for the purpose, 'redeem-

¹ J. Theodore Harris (King & Son). See also Howe's *The Evolution of Banking* (Kerr, Chicago), where photographs of the Guernsey notes and the public works are given.

able in ten years out of import duties and the revenue from butchers' shops.' By September 1821 the total interest-free notes in circulation did not exceed £10,000.

There is a legend that when the new markets were opened, the Governor, Daniel de Lisle Brock, cancelled, by publicly burning them, a number of these notes. The local press of the period, however, has no reference to this alleged ritual, and the notes were probably taken off the market in a much less dramatic way, and quietly cancelled, as under the previous arrangement, from the import duties on wines and spirits, and from the taxes on the butchers' shops.

So successful was the note issue scheme that, in March 1826, the Finance Committee of the States (Parliament) was authorized to issue additional notes to the total of £20,000 for the purpose of erecting Elizabeth College and of building certain parochial schools.

The *Jersey Evening Post* says that by 1837 over £55,000 of interest-free notes were still in circulation—

'and in the Billets d'Etat frequent references are made by eminent men of those times that had it not been for the issue of States' notes important public works, such as roads and buildings, could not have been carried out, and this was done without interest-costs to the Island, the result being that the influx of visitors was increased, commerce was stimulated, and the property of the Island vastly improved.'

For the first ten years from 1816 the note issue scheme worked splendidly; and there was no opposition. But after 1826 the voice of the Money Usurer was heard in the land.

First, it was said that no capital works should be financed by State note issue, unless the consent of the King in Council were first obtained.

Daniel de Lisle Brock, the Governor, spiritedly opposed this proposal, and it was defeated.

Three years later the bankers appealed to the Privy Council in London, and that body asked De Lisle Brock for an explanation. The reply to the Privy Council was published in the *Billet* for December 23, 1829, and is described by the *Jersey Evening Post* as a 'masterpiece,' although the paper does not give the text.

The bankers' next step was to issue big quantities of their own notes and flood the island with paper money, hoping to deluge and discredit the State notes.

One would have imagined that public opinion would have backed the anti-usury Governor and that he would have stopped the private bank issues altogether, under penalty of imprisonment to the bankers in the plot; but apparently the financiers were strong enough in the year 1836 to secure an agreement whereby it was stipulated that the State notes in circulation were not in future years to exceed £40,000.

And right down to our own time in 1914 the public issue remained at that figure. During the Great War, however, the need for money was so great that an Ordinance was passed allowing the issue to be increased, and to-day it fluctuates between £150,000 and £200,000, 'and is undoubtedly,' says the *Jersey Post*, 'a source of great benefit to the Island.'

And note this :

'A loan of £175,000 at 5 per cent., redeemable in thirty years, would cost the States annually £11,383 in interest and redemption. Our note issue for approximately the same sum costs us £450 per annum; so that it is up to every patriotic Guernseyman to use State notes in his local transactions, and by so doing, keep down taxation, which bears on each of us.'

But it is not the amount of the saving to the Guernsey people that is the most important and most interesting feature of this amazing experiment : it is the complete absence of any allegation that the note issue inflation—for inflation it was—had raised prices of goods to the Islanders. Doubtless such an allegation, were it now to be made, would be incapable either of proof or of disproof ; but it is an indisputable fact that the Guernsey tradition is altogether favourable to the public note issue and is wholly against the private bankers and money-lenders who sought to frustrate the experiment.

(D) PROFESSOR SODDY'S PROPOSAL

Professor Frederick Soddy, who has already won his laurels in Chemistry, has contributed greatly to modern thought upon the importance of national control of the issuance of money.¹ He declares that he was first attracted to the study of the problem of money by the writings of Mr. Arthur Kitson, who for a generation was practically alone in stressing the importance of the subject. Professor Soddy's main contention is that the State, and the State alone, should issue new money, and that the banks ought to be permitted to lend £1 for £1, and no more than £1 for £1, against deposits and securities actually in their possession.

When the privilege of creating money for their own profit is abstracted from the private banks and becomes the prerogative of the State, the banks will continue

¹ See *Money versus Man ; The Inversion of Science ; Wealth, Virtual Wealth, and Debt ; The Wrecking of a Scientific Age*, &c. For a criticism of part of Soddy's theory, his theory about fictitious loans, see Cole's *Money*, p. 375 *et seq.*

giving other services to their clients, such as keeping their accounts, providing safe deposit facilities, &c., and will charge their clients a fee for so doing.

The present writer finds Professor Soddy one of the very few authorities on Finance who has any conception of the importance of the National Debt in our financial economy, or has any suggestion to make of a rational and feasible method by which that debt may be substantially reduced. Most other writers simply dodge the subject. But Professor Soddy has clearly shown that something in the neighbourhood of £2,000,000,000 of our National Debt was originally fiction—mere book-entry work. It is true that the present holders of scrip for these millions may have given up securities or property for their debt certificates, and it will therefore be necessary for the State, somehow or other, and sometime sooner than later, to purchase £2,000,000,000 of debt scrip from its present holders, as and when the debt scrip comes periodically on to the market for sale.

The State, says Professor Soddy, could purchase the debt with new money which the State itself and not the private banks would create for the purpose. The State would then immediately cancel the scrip it had purchased. And £2,000,000,000 of interest-bearing debt would thereby be supplanted by £2,000,000,000 of non-interest-bearing debt (*i.e.* the new money), and the nation, in consequence, would be relieved of an annual burden of £100,000,000 in interest. Since these estimates were made, the State has secured a conversion of a large part of the National Debt to lower rates of interest. The possible savings resultant from an application of Professor Soddy's scheme would therefore require amendment.

(E) THE GESELL THEORY

The writings of the late Silvio Gesell are much more widely known on the continent of Europe and in the United States of America than they are in Great Britain. Mr. Gesell, a German who made a fortune in South America, returned to Switzerland and spent the years of his retirement until his death in 1930 in propagating a theory of 'interest-free' money. Under his scheme, a public body which desired to undertake new public works, instead of borrowing money at interest for the purpose, would issue currency notes to the value of the new works. The currency notes are to *decrease* in value one-tenth of 1 per cent. per week, or 5 per cent. per annum. If a trader gets payment in a Gesell note and desires his note to retain its value, he must affix a stamp according to the length of time he has kept the note in his possession. As he does not desire to pay for and affix stamps, he does not hoard the money : he passes the note on quickly : he pays his bills or his taxes with it. The result is that the velocity of the Gesell notes is much greater than the velocity of non-depreciating money ; the Gesell notes, therefore, operate more exchanges of goods : they stimulate both consumption and employment, and they preserve the community from great burdens of debt.

It will be observed that there is some analogy between the Gesell depreciating money and our own Post Office practice of charging a commission equivalent to the original commission upon Postal Orders which are not cashed within three months of the date of issue.

Experiments in the Gesell system have taken place—it is alleged with most markedly successful results—

at Schwanenkirchen in Bavaria, at Steyr, and at Worgl in the Austrian Tyrol, where the National Bank of Austria has interfered and compelled a State prosecution of the Mayor of Worgl for an infringement of its note-issuing monopoly.¹ Professor Irving Fisher, of the Chair of Economics at Yale University in America, has written and broadcasted very favourable descriptive accounts of the Worgl experiment, and it is reported that as a result of his expositions over twenty towns in America have adopted Gesell methods and are now operating with interest-free money.

¹ See *New Statesman*, 2/12/33 ; Mr. Gaitskell in Cole's *What Everybody Wants to Know about Money* (Gollancz) ; *Free Money*, by J. Henry Buchi (Search Publishing Co.) ; and Professor Irving Fisher's *Booms and Depressions* (Allen & Unwin Ltd.), p. 226.

CHAPTER XVII

REMEDIAL MEASURES : THE POST OFFICE BANK

‘ . . . a very high degree of enterprise in operation. Indeed, we do not think it is going too far to say that the Savings Bank is ahead of any private concern in the adoption and development of office mechanization and labour-saving devices.’—*Report of Lord Bridgeman and his Colleagues—Post Office Enquiry*, Cmd. 4149 (1932).

AT the end of the year 1932 there were no fewer than 10,000,000 active deposit accounts in the Post Office Savings Bank and a sum of £305,712,000 was due to the depositors. By October 1933 the estimated balance due the depositors, after allowing for accrued interest, was almost £325,000,000.

Measured by the number of his customers the Postmaster-General of Great Britain is the largest banking operator in the world, and prior to the trade slump, which drove large sums of money out of industrial use and into the keeping of the Joint Stock Banks, he was also the world's largest banking operator when measured by the amount of his deposits. In addition to the Post Office Bank, and also under Government supervision and working without profit for shareholders, there were in November 1932 the Trustee Savings Banks with almost 2½ million active accounts carrying deposits of over £202,000,000.¹

¹ The funds of both Post Office and Trustee Banks, after providing for current requirements, are deposited with the National Debt Commissioners. The State guarantees the depositor in the

The Post Office Bank has always, from Mr. Gladstone's time until now, been hampered and crabbed by the open or covert opposition of the Joint Stock Banks, whose proprietors have succeeded in imposing many irritating prohibitions and restrictions upon its development. Down to the period of the war no individual depositor could deposit more than £50 in any one year in the Post Office Bank, nor could he have a total credit balance of more than £200 ; he could not draw a cheque upon his account : he could not pay in Scots bank notes or cheques at a Post Office in England : he could not pay in a coupon or dividend warrant, nor a cheque upon a foreign bank, nor a bill of exchange even if it were cashable on demand : he could not get a Traveller's Letter of Credit upon his own account. No interest was given him upon sums under £1, nor for any sum for the broken part of a calendar month.¹

Largely as a result of continuous Fabian Society propaganda several of the more obviously foolish of these restrictions have now been modified, and during the year 1933 a system of Travellers' Warrants and a system of Cruising Credits has been inaugurated. Travellers' Warrants for £3 each are payable at any Post Office without surrender of the Bank Book ; and Cruising Credits now enable a traveller on board a British ship to obtain Post Office Bank money through the purser. But there yet remains a series of senseless prohibitions and limitations, all of them

former and the bank in the latter case. The depositor in the Trustee Bank is, however, further safeguarded by a State Inspection Committee limiting expenses, etc., under the Savings Bank Act of 1891.

¹ *How to Pay for the War*, Fabian Research Dept. (Allen & Unwin Ltd.).

carefully designed to prevent the development and full use of the State Bank in the national interest. For example, in March 1934 a depositor was still forbidden to deposit more than £500 in any one year, the restriction being drafted with the clear object of drawing the larger depositors away to the private profit banks. Again, a depositor is not permitted to withdraw more than £3 at sight, even from the Post Office branch where he has lodged his money ; if he desires to withdraw more than £3 his pass-book must first be sent to London for the necessary authority. He is forbidden to pay money in to any other depositor's account unless at the same time he submits the pass-book of the other depositor. He may indeed apply for a crossed warrant upon his account and hand the warrant to his grocer or his tailor, but his grocer or his tailor cannot cash that crossed warrant at a Post Office : the warrant may only be paid into a Savings Bank account if the grocer or the tailor has one ; if not, he must get a private banker to cash the warrant for him.

But by far the most irritating restriction of all is the absence of any cheque system as between the 10,000,000 accounts in the Bank.

Here is a Bank in existence with 15,000 branches and buildings, safes, and clerks—all the machinery of banking. The security is absolute : all the funds invested with the Government, and the Government—that is, the Nation—guarantees repayment of the deposits on demand. Were a cheque system permitted as between the depositors, that is to say, if Depositor A might pay a debt to Depositor B by cheque, then when B paid in the cheque he had received from A all that would be involved would be a book-keeping transaction in the Post Office, a mere diminution of A's

assets, and a corresponding increase in B's assets, by the amount of the cheque.

If the recipient B were not allowed to withdraw cash for the cheque until it was first proved that the cheque was bona-fide and that A had assets against it (which would involve three days' delay, and indeed is no more than a private banking company has the right to insist upon before it cashes a cheque from an unknown source), the Post Office would be involved in no financial risk whatever.

Ever since the year 1910 the United Kingdom Postal Clerks' Association has urged the adoption of a system of cheques upon Post Office accounts. In 1912, the then Postmaster-General, Sir Herbert Samuel, forbade the Association to engage in any public campaign on the matter, but the Association has nevertheless sent deputations to successive Postmasters-General urging inquiry, and in 1920 and 1921 the Executive of the Association collected and published a considerable amount of information as to the working of the system in other lands. In 1927 the Postmaster-General referred the subject to the Post Office Advisory Council, and a sub-committee of three (one a private banker, Mr. Robert Holland Martin) reported in March 1928 that 'at the present stage' a postal cheque system '*on the continental model*' should not be embarked upon, but that apart from this continental model 'a tentative step should be made in the direction of offering cheque facilities for Post Office Savings Bank depositors'; the sub-committee was, however, divided as to the desirability of experimenting with a system of limited cheques for depositors 'with adequate balances.'¹

A system of limited cheques means that under it the

¹ Cmd. 3151 (1928).

depositor could obtain £50 and £20 books of cheques in maximum limits such as £10, £5, £2, and £1 ; but as the minority member of the trio on the sub-committee reported, this system was of little more use to the depositor in the Post Office Bank than the device, presently within his power, of buying a bunch of Postal Orders in advance. The third member of the sub-committee, therefore, stood out for a system of unlimited cheques.

Nothing, however, has been done by the Post Office authorities to put either the limited recommendation of the two sub-committee men or the unlimited recommendation of the third sub-committee man into operation. The report has simply been shelved, and the contemptuous way it has been treated by the Treasury, taken in conjunction with the persistent retention of the absurd and indefensible regulation which limits the amount of deposit to £500 in any one year, warrants us in saying that the Post Office Bank is still being deliberately crabbed. If the £500 limit were withdrawn and a cheque system permitted, there is no doubt whatever but that considerable deposits which presently rest in the hands of the private Joint Stock Banks would be immediately transferred to the Post Office Bank, and the State thereby placed in possession of vast funds at a lower rate of interest than it is even now compelled to pay. The rate of interest upon Post Office Bank deposits is nominally $2\frac{1}{2}$ per cent., but the rate is really less than that, for the State pays no interest on any balance under £1, and none upon any broken calendar months. The interest rate over all is, therefore, about $2\frac{1}{3}$ per cent. per annum. But on other borrowings from its citizens the State has since the War been paying over 5 per cent. and, even after the conversion to lower rates, $3\frac{1}{2}$ per cent. on

War Loan. To the extent to which the State could supplant $3\frac{1}{2}$ per cent. money by $2\frac{1}{2}$ per cent. money the State would clearly be the gainer.

If it be contended that the $3\frac{1}{2}$ per cent. money is long-term money and not repayable at call, whereas the $2\frac{1}{2}$ per cent. Post Office Bank money is repayable at call, the short answer is that the Post Office deposits grow steadily on balance year after year and are in fact and reality long-term money. The Post Office depositor does not readily 'run' upon his own bank, even in times of panic; and the disgraceful political ramp of 1931 made, all things considered, a wonderfully small impression upon him. He is looking, not so much for a high rate of interest, as for security, and nowhere can he find better security than in a bank which is guaranteed by the entire assets of the nation.

Other countries run a postal cheque system—Austria (since 1883), Hungary (since 1890), Switzerland (since 1906), Germany (since 1909), Belgium (since 1913), France, Italy, Holland, and Czechoslovakia (since 1918). In the year 1926 Germany's Postal Cheque system showed a loss, but the systems in France, Belgium, Holland, and Switzerland showed a monetary profit. In Belgium, in the year 1929, there were 249,100 Postal Cheque accounts, and for the transfer of money from one account to another in Belgium no charge was made; but for cheques payable to self or to a non-account holder (involving cash movement) a mere nominal charge of 20 cents, or less than one-third of a penny per cheque, was imposed.

Assuredly there would be some book-keeping costs involved in operating cheques upon Post Office accounts, but these costs would be more than covered by the saving in interest which the State would make upon the additional money attracted by a cheque

system to the Post Office Bank, and if it were considered desirable, there might be a charge imposed upon each book of cheques issued. But these are details, and it is in the highest degree important that the stupid limitations which the nation has been induced to impose upon its own bank—but not upon the private profit banks—should be removed. With their removal State banking would be given a tremendous fillip ; and if simultaneously with their removal we had a national ownership of the Bank of England our private savings and our public borrowings for State purposes would no longer require to run the gauntlet of the Money Market.

CHAPTER XVIII

REMEDIAL MEASURES : MUNICIPAL BANKING

‘ It is a form of competition which I do not think is fair, as it is based on the credit of the community.’—Mr. BEAUMONT PEASE, Chairman, Lloyds Bank, in *Financial Times*, 21/2/29.

‘ Is this supremely successful experiment to remain unique ? Is Birmingham to have the sole monopoly of this fruitful idea. . . . Have we indeed reached the limit of what Municipal enterprise should be allowed to attempt, if we confine it to a single town ? For my part, I would as soon endeavour to imprison a volcano.’—Rt. Hon. NEVILLE CHAMBERLAIN, in Preface to *Britain’s First Municipal Bank*, J. P. HILTON.

‘ You may call it Socialism if you like : I have never been frightened by a name. I do not care whether it is Socialism or not, so long as it is a good thing. . . . It would be a good thing for the country if it should be further extended.’—Rt. Hon. NEVILLE CHAMBERLAIN, in *Birmingham Post*, 18/6/23.

A GAINST the menace of Municipal Banking the Money Power in Britain has set its flinty face. In several countries there have been successful municipal banking ventures. The city of Budapest, for example, has since 1876 run a municipal bank which transacts all the banking business for the municipality ; this Budapest Bank takes private deposits and grants first mortgage loans up to 50 per cent. of the value of property ; in form it is a Limited Liability Company, but the Municipal Corporation holds 98·3 per cent. of the shares, so that to all intents and purposes it is a complete municipal venture.

There have been large municipal banks in Breslau and Chemnitz for many years,¹ provincial banks in the Rhineland and Westphalia, and a Clearing-House Bank in Germany—the Kommunalbank—serving over 3000 savings banks, which were practically all departments of local authorities.

In Switzerland most of the twenty-two Cantons have what are known as Cantonal banks, but these are really public utility companies paying a maximum dividend of 4 per cent. Two-fifths of the capital in these Cantonal banks is subscribed by the Cantons and the other three-fifths by the private banks and the public.

In Germany and in Italy there are many people's banks run on semi-co-operative syndicalist principles,² and there are People's banks, Co-operative banks and Village banks, with varying constitutions and structures, in evidence all over the world.

In Great Britain, of the larger local authorities, only one, Birmingham, has acquired statutory power to engage in public banking, all the other authorities being driven to the private money market for their loans. The venture at Birmingham did not succeed without a long and desperate battle with the private bankers; and but for the determination and persistence of the Mayor of the city, Mr. Neville Chamberlain, the bankers would have triumphed and the Municipal Bank been killed in its infancy. In public speeches the Mayor defied 'all the bankers in Lombard Street' and his political influence was, fortunately, sufficiently great to secure banking powers for his city despite the strenuous opposition of the Money Lords, who were red with wrath even at the

¹ Knoop, *Municipal Trading* (1908).

² The Schultze-Delitzsch and Luzzatti systems.

possibility of Birmingham getting clear of their toils.

But although the results of the Birmingham venture have been magnificent and unquestioned, and although Royal Personages now open new Municipal Bank premises, and although Mr. Chamberlain has twice been a Chancellor of the Exchequer, he has been impotent to get the same statutory powers as Birmingham secured thrown open to other local authorities in the country.

As Lord Mayor of Birmingham in 1916, Mr. Chamberlain first carried a resolution for the inauguration of a banking department by the Corporation, but the City had at that time no legal power to operate such a resolution and it was compelled to seek powers for the purpose from Parliament.

On April 11, 1916, Mr. E. S. Montagu introduced a Bill in the House of Commons authorizing local authorities with a population of over 50,000 to establish municipal banks. Joint Stock bankers were seriously alarmed at this invasion of their preserves, and vehemently demanded that the Government should withdraw the Bill; and the Bill without further ado was hurriedly withdrawn. Birmingham, however, persisted and another Bill was produced, though it was burdened with almost ludicrous handicaps to its success.

The Bill was called the Municipal Savings Banks (War Loan Investment) Bill, and, after much careful scrutiny and amendment by the private banking interests, was finally passed, on August 23, 1916. But when it emerged from the law-making machine the Act was found to be so restricted and pruned as to be practically useless. For example, clause I. (subsection (a)) declared that no municipal bank should

be allowed to take deposits direct from an investor, but that every investor should be a 'person in the employment of some other person'; the investments, moreover, had to be made through the employers 'either by way of deductions from wages or otherwise.'

By further restrictive clauses the money which any person could invest was limited to £200; withdrawals under seven days' notice were restricted to £1; all the bank's investments were to be made with the National Debt Commissioners; and, finally, no local authority was to be allowed to start a bank unless it had a population of at least 250,000. As, if these restrictions were not sufficient, it was enacted that municipal banks were only to be allowed to operate for three months after the termination of the War.

Birmingham was the only corporation which engaged in operations under this precious Act. *But as the Treasury only allowed 3½ per cent. to the Bank, and as the Bank paid 3½ per cent. for the money from its depositors, there was nothing left for working expenses.* Naturally there was a loss in Birmingham, and a yell of triumph at that loss from the anti-Socialist Press. The Birmingham Municipal Bank of 1916 was, as the *Manchester Guardian* (August 30, 1916) truthfully observed, under sentence of death from its inception. The regulations imposed by the banking interests in Parliament had strangled the venture.

Mr. Chamberlain, however, had no intention of allowing himself to be beaten in the first round by cheap money-lord tricks like that; the City Council of Birmingham persisted in demanding a real, and not a bogus, banking charter, and in 1919 it promoted a private Bill and secured its passage through the House of Commons. The new powers conferred upon Birmingham included permission for the Corporation

to engage in savings-bank deposit and house-purchase business, and freed the venture from most of the cramping and impossible restrictions of the Act of 1916.

Under the new Act of 1919, Birmingham was permitted to carry on a Municipal Bank in accordance with regulations which might, from time to time, be prescribed or approved by the Treasury in London, and one of the regulations which these gentry either imposed or approved was that 50 per cent. of the Municipal Bank deposits must be invested in Trustee Securities (including War Loan) ; the balance of the deposit money only being available for the purposes of the Corporation of Birmingham.

Despite all opposition, however, the Birmingham Bank has been a signal success, as the following figures show :

Year.	Balance due to Depositors.		
1920 . . .	£	746,984	
1924 . . .	£	4,243,541	
1927 . . .	£	7,800,221	
1932 . . .	£	15,335,688	

The number of depositors in 1932 was 356,350, or about one-third of the total population of the city. The bank has succeeded in securing cheap money to the municipality ; it has acquired a huge surplus and reserve fund ; it possesses valuable property in its branch offices—its chief office alone is valued at £80,000—and costing the city ratepayer not a penny.

There have been attempts made by other municipalities in Britain to secure from Parliament similar powers to those now enjoyed by Birmingham. Swansea Corporation sought such powers in 1920, and the

Corporation of Wigan sought powers in 1921, but Parliament, doubtless at the instigation of private banking companies, refused. Other corporations have had committees of inquiry, but after the rebuffs (to say nothing of the great cost of private bill promotion) given to Swansea and Wigan, they have been deterred from proceeding farther. In 1928 the City Council of Sheffield had promoted a Bill extending their powers, and one of the clauses in the Bill was for a municipal bank on Birmingham lines, but they were informed by the Treasury that unless the municipal bank clause was withdrawn from the Bill the Treasury would oppose it.¹ And on February 18, 1926, the Treasury, through Sir Otto Niemeyer, wrote to the agents who were acting for the Corporation of Bristol, declaring that unless a clause promoting a municipal bank were taken out of the Bristol Bill the Treasury would do its utmost to kill the Bill. It is clear that there is a well-trodden path between Whitehall and Lombard Street.²

On February 21, 1924, the Association of Municipal Corporations, after consideration of a report on Municipal Banking which had been signed by, among others, the City Treasurers of Bradford and Swansea, and the Town Clerks of Bristol, Derby, and Rotherham, decided to press the Government for 'a general Act' enabling municipalities to set up banks on the Birmingham model. The Institute of Municipal Treasurers and Accountants also approved.

¹ Official Report, 22/2/28.

² By the year 1927 the following City Councils had endeavoured in vain to get powers similar to Birmingham—Worcester, Smethwick, Middlesbrough, Warrington, Bootle, Wigan, West Bromwich, Cardiff, Rotherham, Walsall, Barnsley, Westham, Newcastle-on-Tyne, Coventry, East Ham, Sheffield, Newport, Gateshead, and St. Helens.

On November 17, 1926, the City Editor of *The Times* openly took the side of the larger municipalities against the Treasury and the City. He declared that such a city as Manchester should get power to run a municipal bank. 'There is little doubt,' he declared, 'that a considerable sum would accrue to the Municipality in interest through its proposed municipal bank.' But the Government, under pressure from the professional money-lenders, refused to yield.

Meanwhile, without waiting for Parliamentary sanction, several publicly-owned banking corporations had been started in Scotland.

In the beginning of 1920 when I was Convener of the Law and Finance Committee on the Kirkintilloch Town Council, I succeeded in inducing a majority of the members of the Council to form ourselves into a Municipal Bank Ltd. We did not require any Parliamentary Powers to convert ourselves into a limited liability banking company. I had only to persuade a majority of the Council to agree to have the majority registered as a Company under the Companies Acts 1908 to 1917, and to agree that the Company when formed should be called the Kirkintilloch Municipal Bank Ltd. Once a Municipal Bank Company is registered its *modus operandi* is simple. The shares in the new company can only be held by members of the Council, and no member may hold more than one share, which he must give up to his successor when he demits office; no profit or dividend is, or can be, paid on the shares, and no 'director' can get remuneration for his services. The cost of floating the company, providing books, stationery, &c., is only about £40, and a loan for this purpose can be secured from the

Common Good funds, or (in England) from the Mayor's salary and expenses, or in a dozen other ways.

The 'company' being now formed and duly registered, contracts with the Council (i.e. its own members acting in another capacity) for the use of the Town Chambers, offices, safes, treasurer's staff, &c., for a nominal sum per annum. A name-plate is put up, ledgers and pass-books are purchased, and the bank is in being.

The householders in the district are circularized, and public meetings are held to explain the advantages of banking with the municipal bank. The working class is reminded that when it deposits money with the Post Office or any Trustee Savings Bank it only receives at the best $2\frac{1}{2}$ per cent. interest for its money. All these Savings Bank and Trustee Deposits (a total of £527,000,000) are taken by the Government, and the Government, in turn, when it lends money to the local councils for housing and other purposes, lends at a profit. That is to say, the Government borrows the savings of the worker at $2\frac{1}{2}$ per cent. and lends him back (through his municipality) his own money at rates which have run sometimes as high as $5\frac{1}{2}$ per cent.

But now, and since 1920, in Kirkintilloch, the working class is invited to deposit its savings in its own bank. The depositor is offered 3 per cent. on his money—that is $\frac{1}{2}$ per cent. more than the Government gives him through its Post Office Savings Banks—and as the municipal bank is bound by its constitution to invest its monies only with municipal departments which have the security of the rates behind them, the savings of the worker deposited with the municipal bank are absolutely guaranteed.

But to the thrifty citizen the benefits and advantages of municipal banking do not end there. When the municipality can get money at 3 per cent. (plus a fraction for the working expenses, salaries, &c., of the banking department) it can pay off the loans which it has previously borrowed at 6 per cent., or $5\frac{1}{2}$ per cent., or 5 per cent., and reduce the local rates. In other words, municipal banking to-day, by enabling the municipality to finance its departments upon a 3 per cent. basis, not only gives $\frac{1}{2}$ per cent. increased interest to its citizen depositors, but it reduces rates and enables municipal departments to supply cheaper commodities and services to the community.

The Kirkintilloch Municipal Bank does not only deal in ordinary savings bank business : it also deals in deposit receipts, and the rate of interest paid upon deposit receipt money is always $\frac{1}{2}$ per cent. over the current rate of interest paid by private banks. Thus, if the private banks are giving 2 per cent. for a given month, the municipal bank deposit receipt rate is automatically $2\frac{1}{2}$ per cent. ; if the private bank rate is $1\frac{1}{2}$ per cent., the municipal bank rate is 2 per cent., and so on.

Before the municipal bank was instituted, the Kirkintilloch Town Council was frequently compelled to go to the private banks for an overdraft, and the overdraft rate of interest was always 2 per cent. above the rate paid by the banker to his depositors. Now, however, the Town Council gets its money from the municipal bank at the exact sum (plus, as I have already said, a small annual fraction for working expenses) that the bank has paid, or is due to pay, its depositors.

At the end of the year the manager of the municipal

bank balances up his books, finds how much he has paid in interest, how much more is due to depositors, and the exact amount of his working expenses. He adds these three sets of figures together, and presents the bill to the Town Council. He adds no profit for the bank department, since the bank desires no profit—and, making no profit, the bank pays no income tax. Nor can the bank ever sustain a loss, for the Council takes all the bank's money and meets the bank's charges.

To the Town Council the gains are remarkable, and at least 3d. per £ on the rates is being saved every year. In the year 1922 (the third of its existence) the Kirkintilloch bank had £17,393 in deposits, and was able to get those deposits at a net cost of £2 19s. 6d. per cent. It and the other towns which followed its example, finance their municipal undertakings upon a much lower rate of interest than do towns and cities which possess no municipal banking system.

The security in the municipal bank is absolute. The secrecy of the individual transaction is as inviolate as in any other bank; the depositor gets an increased rate of interest and the public rates are reduced by 3d. in the £.

That is a Socialist experiment in operation. At Irvine the Provost has declared that the municipal bank is the most successful of the town's enterprises and has been of great financial benefit to the municipality.

Of course there are objections. It is always much easier to suggest and imagine difficulties than to conceive and carry through any change which relieves the community of a portion of the financial incubus which strangles and paralyses municipal effort to-day.

But thirteen years of practical experience have shown that all the dismal prophecies about a run on the municipal banks have been without foundation. We have gone through a terrible period of privation and unemployment, yet deposits have steadily increased ; indeed, a run on the banks is scarcely thinkable, since the only result would be to compel the Councils to borrow on their public securities in order to pay off the bank depositors ; and, as the Councils would require to pay outside money charges for temporary borrowing, the local rates would be increased and an extra burden thereby laid upon the bank depositors. There can be no panic, for the depositors know that their money is invested in their own waterworks, gas works, roads, &c.—all publicly guaranteed enterprises—and is therefore much safer than when invested in the speculative ventures in which private banks so often invest their depositors' money.

The other chief objection advanced to a municipal bank on the Kirkintilloch model is that a reactionary majority might find its way into the Local Council and scrap the municipal bank at the behest of the private banking interests. If that were tried, the reactionary councillors would be obliged to borrow money at dearer rates of interest in order to pay off the depositors in the municipal bank ; that would *ipso facto* raise the rates, and the raising of the rates would in turn sweep the reactionary councillors from office. No, the fact of the matter is, that once a municipal bank is established it is there for good, a standing illustration of the developing civic spirit, an essential support to all the other municipal enterprises and a partial relief to the community from the terrible exactions of private banking.

The success of the Scottish Municipal Banks has

been phenomenal. In 1932-3 the deposits stood as follows :

Kirkintilloch. (This from a population of 12,000 people which has also a thriving Trustee Savings Bank where the deposits have increased £12,000 during the same period)					<i>Bank began.</i>	<i>Deposits.</i>
					1920	£68,354
Irvine	.	.	.	.	1920	23,608
Clydebank	.	.	.	.	1921	37,657
Motherwell	.	.	.	.	1924	315,101
Peebles	.	.	.	.	1925	44,560
Selkirk	.	.	.	.	1925	29,236
Cumnock	.	.	.	.	1928	5,789
Kilsyth	.	.	.	.	1932	8,138
						<hr/> £532,447 <hr/>

A Committee of Inquiry on the subject of municipal banking was set up by Mr. Churchill under Treasury Minute in September 1926. From its composition the report was almost as predictable as would be one from a committee of butchers set to inquire into vegetarianism. The appointed inquirers were five in number, two of them professional bankers, one, Lord Bradbury, being chairman, while the other three were associated one way or another with the City ; and when Sir Percival Bower, the then Chairman of the Birmingham Bank, left the Committee room after giving his evidence, he indignantly denounced the Committee, and scorned in advance any report it might issue.

And indeed it was with difficulty that the Committee kept its destructive hands off the Birmingham Bank. The members solemnly declared they were 'not in agreement with the general policy which

brought it into being'; they were sorry the Bank had been allowed to lend so much of its money to the Corporation at call; but 'so long as the Birmingham Bank remains an isolated undertaking' they would be reluctant to recommend that it should be disbanded.¹ They recommended firmly that not another municipal bank should be permitted for ten years.² And as for the Scots Municipal Banks on the Kirkintilloch model, no more of them, under any circumstances, should be tolerated; Lord Bradbury and his friends did not wait for their final report to the Treasury, but they hurriedly

'thought it desirable to inform the Treasury at once that, in our opinion, the first opportunity should be taken to prohibit the use in the title of any Banking Company of the term "Municipal" or any other term which might suggest connection with a local authority.'

And, sure enough, when the next Companies Act was put through in 1929 there was a clause (17) just as the Bradbury Committee had signalled it to Whitehall and the City. The peril of cheap money for municipal departments must be avoided. Cheap money might induce municipalities to go spendthrift and reckless. So the public was warned off the banking course and the time dishonoured methods of exploiting the municipal ratepayers were to continue. Cheers from Mr. Charles Hatry and his like.

And now any municipality desirous, since 1929, of forming a municipal bank has been compelled to drop the word 'municipal' from its title. Thus Kilsyth's bank is simply the Kilsyth Bank Limited and not the

¹ Cmd. 3014 (1928), Pars. 133 *et seq.*

² This was the precise period recommended to them by the Governor of the Bank of England.

Kilsyth Municipal Bank Ltd. as it was originally intended to be.

But in Scotland we say that the proof of a pudding is the preeing of it, and the final and conclusive recommendation for a wider adoption of municipal banking is, that there is not a single Town Councillor of any political party in any city or town where a municipal bank has been established who would propose to disband that bank. Not one. Whatever else there may be local disagreements about, there is none over the success of the local municipal bank or over the desirability of maintaining and developing it.

Every £1,000,000 or every multiple of £1,000,000 raised from the citizens for the citizens' business is another block of capital taken out of the orbit of the private speculator in finance. It is rather difficult perhaps to estimate what proportion of municipal bank money is what is called new money, i.e. money saved for investment and which otherwise would not have been invested at all but kept out of circulation or, alternatively, would have been spent upon consumable goods. In Birmingham Mr. Chamberlain estimated that the proportion of new money for investment was from 75 per cent. to 80 per cent. of the total amount of money deposited in the municipal bank, but the Bradbury Committee refused to put the figure higher than 25 per cent. Even so, that extra saving of 25 per cent. indicates clearly that by municipal banking we can get into effective municipal use about £100,000,000 presently retained in jugs or in pockets.

CHAPTER XIX

REMEDIAL MEASURES : CO-OPERATIVE BANKING

‘ . . . he who dwelleth well in fellowship and because of fellowship shall not fail, though he seem to fail to-day, but in days hereafter shall he and his work yet be alive. . . . Be of good cheer, for the fellowship of Man shall endure, however many tribulations it may have to win through.’—WILLIAM MORRIS, *A Dream of John Ball*.

THE Co-operative Wholesale Society Bank acts as Banker, not only for the Co-operative Wholesale Societies, but for practically all the retail Co-operative Societies, for the Labour Party, for most of the Trade Unions and their Approved Health Societies, for some of the larger Friendly Orders such as the Shepherds and the Rechabites, and as at January 1933, for 43,325 individuals. The entire assets of the Co-operative Wholesale Society guarantee the Bank. No accounts are opened for individuals who, or for organizations which, are in any way in competition with the Co-operative movement.

Customers operating current accounts with the C.W.S. Bank still require to make use of the branches of the Joint Stock Banks for paying in money or withdrawing it from the C.W.S. Bank. And the C.W.S. Bank is not a clearing bank, i.e. it has no separate account with the Bank of England. The rate of interest paid upon current accounts is determined at the end of each half-year when the available surplus is ascertained. The annual rate paid upon fixed deposits

depends upon the length of time the deposit is allowed to lie, running from 2 per cent. for money deposited for less than six months, to $3\frac{1}{2}$ per cent. for money which is allowed to lie undisturbed for four years. Three months' notice is required for withdrawal under this scheme.

The Co-operative Wholesale Society Bank makes no profits and pays no dividends. All surpluses, except small sums placed to reserve, are divided equally among borrowing and lending customers in the form of a lower overdraft interest to the borrower, or a higher rate of interest to the lender. 'It is interesting to note,' says Mr. Sidney Webb, 'that if the Joint Stock Banks adopted these methods the whole of the dividend now paid to the shareholders would be received by the customers.'¹

The Co-operative Wholesale Society Bank began in 1872 as a Loan and Deposit Department of the Wholesale Society, but it was not until the year 1876 when restrictions upon Co-operative Banking were withdrawn by Parliament that the Bank really commenced to operate as a bank. It exists primarily to promote Co-operative business, but its monetary resources now far exceed what is required for Co-operative trading requirements,² and very considerable sums are invested in Government Stocks, Municipal Stocks, Public Board Stocks, Railway Mortgages, &c. Its Credit Balances on January 14, 1933, amounted to over £65,000,000.

The present Manager of the Bank, Mr. T. J. Davies, tells the story of how during the Coal Strike of 1912 the

¹ Article in *Contemporary Review*, July 1918, 'How to Prevent Banking Monopoly.'

² *Economic Information*, October 1933, Co-operative Wholesale Society.

Northumberland Miners' Association 'being hard-pressed for funds, applied to its Bankers for an overdraft, excellent security being offered for the loan. This overdraft was refused, however, and the Northumberland Miners thereupon approached the Co-operative Wholesale Society Bank, by which an advance was made immediately, so enabling the Union to make payments to its members.' ¹

Needless to say, the Northumberland Miners' Association learned a lesson that day, and they decided that they would in future deposit their funds where there was less likelihood of political or economic prejudice being used against them in an hour of crisis and need, than was manifestly the case in the private profit banking system.

When any apologist for the profit-taking system in banking declares that the private banks have no politics and no prejudices, refer him to a Northumberland miner.

¹ *A Brief History of the Co-operative Wholesale Society Bank*, T. G. Davies, 1930.

CHAPTER XX

THE JOINT STOCK BANKS AND THE MAGNATES OF THE CITY

‘ We do not believe that any large proportion of bankers are plotting to keep the world poor. There is a number of honestly perplexed men among them, men who are dismayed and distressed by the turn things are taking.’—H. G. WELLS, *The Work, Wealth, and Happiness of Mankind*, p. 491.

‘ No dictator could interfere with our banking system, for this was still a democratic country.’—Hon. ALEXANDER SHAW at Galashiels, in *Financial News* (7/11/33).

‘ Banks create credit. It is a mistake to suppose that bank credit is created to any important extent by the payment of money into the banks. . . . When a bank lends by granting an advance or discounting a bill, it is a clear addition to the amount of the means of payment in the community. ‘The bank does not lend money.’—*Encyclopædia Britannica*, Article on ‘Banking and Credit,’ 14th edition, vol. iii. p. 48.

WE come now to the question of the relationship which ought to exist between the State and the Joint Stock Banks, the Acceptance Houses, the Discount Bankers, and the Stock Exchange.

During the year 1886 there were in England and Wales 109 separate Joint Stock Banks with a paid-up capital of £38,500,000, and with deposits and current accounts amounting to £229,000,000. Between 1886 and 1916 the process of amalgamation had so developed in the banking world that the number of individual institutions had been reduced from 109 to 35 ; but the 35 banks remaining had increased their

capital by £10,000,000, and they had multiplied their deposits and current accounts by four. These steps to private trustification, however, had seriously alarmed the Chambers of Commerce, and in 1919 a Treasury order was issued forbidding further banking amalgamations without the prior permission of the State. The swallowing-up process thereupon was halted, and fourteen years later, April 1933, there was still ostensibly, as the following table shows, a competitive banking system in operation :

	No. of Banks.	Total Deposits.
The ' Big Five ' (Barclays, Lloyds, Midland, the National Pro- vincial, and the Westminster)	5	£1,773,000,000
Other Clearing Banks	4	176,000,000
County Banks	5	128,000,000
West End of London	2	5,000,000
Irish Banks	9	198,000,000
Scottish Banks	8	271,000,000
		<hr/> £2,551,000,000 <hr/>

There were also several Co-operative Banks taking deposits (£65,000,000) and there were certain deposits in such private banks as Barings and Hambros.

This table, however, gives a somewhat exaggerated picture of the extent to which competition still persists. Several of the Scottish banks, for example, are under the control of one or other of the ' Big Five.' The Clydesdale and the North of Scotland Bank are controlled by the Midland. The National Bank of Scotland is controlled by Lloyds, which holds no less than 97·89 per cent. of its stock. The British Linen Bank is under the control of Barclays. The other four Scottish banks, the Union, the Commercial, the

Royal, and the Bank of Scotland, have close working arrangements. Indeed, all the Scottish banks have undertaken not to outbid each other in rates for deposits and advances.¹ One of the Clearing Banks, Coutts, is now affiliated to the National Provincial, while another, Williams Deacons, has exchanged stock with the Royal Bank of Scotland; the capital of the Belfast Banking Company is now held by the Midland, and the bulk of the Ulster Bank shares are held by the Westminster. Taking the British position as a whole, it is safe to say that were it not for the fact that the bigger commercialists and industrialists had become rather restive at the prospect of a private banking trust, and had it not been for the minatory attitude of the Treasury, the chances are that by this time even the illusion of competition would have disappeared altogether, and we should have been faced with one gigantic money corporation dictating credit terms to every trade in the land.

And in truth there is a great deal to be said, from a purely administrative efficiency point of view, for a single control in our banking system. There are hundreds, perhaps, indeed, thousands, of redundant bank buildings, frequently palatial marble-fronted structures, erected at great cost and paid for out of the overdraft levies imposed upon British traders. There are unnecessary ornamental Directors—droves of them—used for their names—decoy ducks to impress the public. Thus Barclays Bank in 1932 had a Central Directorate of 44 members. Lloyds had 33, the Midland 33, the National Provincial 24, and the Westminster 26. Barclays, in addition, had 96 local directors and the National Provincial 31. And Sir

¹ 'Treatise on British Banking,' Sir Charles Addis, *Edinburgh Review*, July 1918.

Charles Addis, himself a distinguished banking magnate, has given us an unforgettable picture of a meeting of a British bank board. After telling us that the few banks now remaining are virtually Government guaranteed institutions, inasmuch as that the insolvency of one of the great banks would involve such widespread disaster that no Government could afford to stand aside, he goes on to describe a meeting of a board of management of a British bank, and

‘the difficulty of withdrawing its members even temporarily from their country pursuits and their obvious anxiety to lose no time in returning to them ; most of them old men, many of them long retired from business ; some of them ex-Government officials and the like who have never been in business ; a few ornamental titled persons ; only one or two here and there who have no train to catch, and are willing to discuss the matter in hand with attention and, it may be, with understanding.’

Yet, despite the waste and folly of the present system, Sir Charles was in distress lest further amalgamations should irritate the public and play into the hands of those who would nationalize the banking system.

The profits earned by the five large Joint Stock Banks are amazing. In 1932 between them they had profits to distribute amounting to nearly £11,500,000, and their rates of dividend ran from 12 per cent. to 16 per cent. The Scots banks and the English Provincial banks do equally well.

In addition to these dividends, large sums went away in salaries for what was often a mere joke of ‘direction’—in unnecessary competitive buildings, and in a ludicrous waste of competitive advertising, perhaps in part designed to keep the Press friendly. Upon this last point witness the annual recitations of the obvious, and the laudations of their system, and the prog-

nostigations (mostly erroneous) regarding future movements in trade—all covering several columns of the great newspapers and weekly journals at advertisement rates—and uttered with great solemnity by the Bank Chairman, and treated, of course, with appropriate public reverence by the business managers of the Press.

Even under private enterprise banking a further unification of the system would have manifest advantages. It would, *inter alia*, diminish the risk of bank failure ; it would reduce waste—and the avoidance of waste is now the one economy as such which is justifiable in our modern world. It would mean that a shifting of business from one area to another or, indeed, the total disappearance of an industry altogether, would not involve a bank collapse ; and arrangements could quite properly and rightly be made whereby no existing salaried officer or clerk would be discharged because of redundancy : any superfluous staff could be dealt with, simply by refraining from filling up vacancies in unnecessary posts, as these vacancies arose on the death of the existing occupants. Instead of crabbing the tendency to amalgamation and the elimination of unnecessary costs, the State might well facilitate every possible step towards them.

But whether the State should go farther than that in the business of credit creation and short-term lending of that credit to private industry is a point around which there has been considerable controversy among Socialists, although the majority opinion at recent annual congresses of the Labour Party has clearly been in favour of the nationalization of the Joint Stock Banks and the nationalization or control of the other Finance institutions and banking houses. The case for nationalization is that—

- (a) *Credit control is as vital to the nation as control of the army or the navy, and that there is no more reason why private companies should exploit the national credit for profit than that they should have the army and the navy farmed out to them for profit ; and*
- (b) *that the enormous surpluses in the business every year should accrue to the State.*

Moreover, there is a growing appreciation of the fact that the banks do not make their profits out of the existence of deposits for which they may have given 3 per cent. interest and the lending of these deposits out again on overdraft at 6 per cent. interest. What comparatively small profits they may make in that way are completely eaten up in the administrative costs of the business. But banking profits in the main are derived from the credits created out of nothing and upon which 5 per cent. or 6 per cent. is charged to borrowers. As to this credit creation there is a crowd of authoritative witnesses from the *Encyclopaedia Britannica* to the Macmillan Committee. One quotation from the Macmillan Committee's report¹ will here suffice :

‘ It is not unnatural to think of the deposits of a bank as being created by the public through the deposit of cash representing either savings or amounts which are not, for the time being, required to meet expenditure. But the bulk of the deposits arise out of the action of the banks themselves, for by granting loans, allowing money to be drawn on an overdraft or purchasing securities, a bank creates a credit in its books which is the equivalent of a deposit. . . . *The bank can carry on the process of lending or purchasing investments until such time as the credits created, or investments purchased, represent nine times the amount of the original deposit.*’

¹ *Committee on Finance and Industry*, Cmd. 3897, Par. 74.

And it can be and is strongly argued that this prerogative in the creation and issue of money credit ought not to be a privilege of a few fortunate private companies, but should be held and operated by the State for the national advantage.

Yet all these arguments probably weighed much less with the Labour Party delegates than did the firmly-rooted conviction which many of them held that the Labour Government of 1929-31 had been deliberately sabotaged by a City conspiracy. They recollected that Mr. Ramsay Macdonald in his salad days had warned them of a financiers' counter-revolution. And other delegates who saw no evidence of a calculated conspiracy but only evidence of the inherent rottenness of a system, declared that the periodic financial crises and crashes in the private profit method of managing the nation's credit—with resultant misery to millions of innocent folk—ought no longer to be tolerated. These delegates held that the only way to prevent a recurrence of the events of 1931 was to insist upon a unification in ownership of the Joint Stock Banks, and upon that unified system being brought under public ownership and control.

But there are, I think, serious objections from a Socialist point of view to this policy.

Let us suppose that we have nationalized the Bank of England, converted the Post Office Savings Bank into a real National Bank, and created a National Investment Board. We have then manifestly taken away from the private profit bankers a very considerable and a growing part of our national money business. We could then have all our requirements for Electricity Boards and Transport Boards, Housing and new State enterprises of one kind or another met without any financial rake-off to the private banks ;

and what would be left to the Joint Stock Banks would be the business of short-term loans to private enterprise—and that alone !

Now could or should the State intervene in this financing of private enterprise? If it did, consider the troubles that would inevitably arise over every application for an overdraft which was refused by the Banking Board. Would not the Government of the day be accused of discrimination and favour to A who had got an overdraft as against B who had not—although there might be quite valid reasons for the refusal to B¹. Moreover, the Joint Stock Bank exists primarily to facilitate short-term lending to private commerce and is, indeed, an integral part of the private enterprise system of trading—it is the accountancy part of it—whereas State banking, after providing long-term investments for State enterprises, is much more likely to develop along the line of providing citizens with a safe deposit for their savings and their valuables, keeping customers' accounts, and providing exchange facilities, for all of which services it might legitimately charge a fee. At any rate, it is difficult indeed to visualize a State Banking system lending credits to, and taking risks for, competitive private profit enterprises.

Again, if we are to buy out the existing shareholders in the Joint Stock Banks at present prices of their shares, we should incidentally take over at book value a considerable amount of frozen credits—such credits, say, as were lent during the cotton-boom period. We should engage in an exceedingly bad bargain and instead of potential savings to the State we might well

¹ See *The Nationalization of Banking*, by Mrs. Amber Blanco White (Allen & Unwin), for a very competently written argument upon this point.

have considerable losses. On the other hand, anything in the nature of confiscation is so outside practical politics and has so many suicidal disadvantages that we need not take up time discussing it.

Then there are the political difficulties of nationalizing the Joint Stock Banks. For the acquisition of a money-lending system that the State does not want and for its own purposes does not require, we should have hundreds of thousands of petty tradesmen and depositors mobilized against us, excited and enraged by *canards* about the wicked Socialists intent upon the stealing of their money ; and the net result might be that we should fail to get the political backing necessary for a socialization of bona fide and useful services. Again, even if a political majority were secured with this additional handicap against us, we should be faced at once with the difficulty of dealing with the branches of Foreign and Dominion banks doing business here. If we nationalized the British-owned banks but left these Foreign and Dominion-owned branches alone, the latter could be used as channels for the surreptitious export of British finance capital, or, at any rate, they could continue to undertake the very sort of business that the British-owned Joint Stock Banks had been doing ; nevertheless, if we compulsorily acquired them we would certainly have serious international complications.

These, then, are the major objections to nationalization of the Joint Stock Banking system. But are we to continue without limit the system of fabrication of money credit for private profit by these banking organizations ? Are we to continue the existence of companies who can, by withholding loans or by discriminating unfairly in the issuance of loans, bring about a trade standstill ?

As to the first point—the creation of credits. The volume of credits issued during any given period is dictated by the Bank of England. The Bank of England can, as and when it chooses, increase or decrease the deposits in the Joint Stock Banks by means of what is called ‘open market operations.’ It can, when its directors think proper, purchase millions of Securities, thereby automatically increasing the amount of cash in the market, or it can sell Securities and take cash off the market. One way or another these operations affect the amount of deposits lodged with the Joint Stock Banks, and as the Banks can only with safety manufacture credits up to the extent of nine times the actual cash they hold (or have deposited at call with the Bank of England) it follows that the volume of the credits the Joint Stock Banks may issue depends upon the policy pursued by the Bank of England. But not only is the *volume* of credit which the Joint Stock Banks issue determined by the Bank of England: it must be remembered that the Bank of England also fixes the bank rate, and that rate in turn fixes the overdraft rate of interest to borrowers. The Macmillan Committee (Par. 96), pointed out that the Bank of England ‘is in complete control of the cash base of the country.’

Further, if we succeed in securing State ownership of the Bank of England (creating the credits for ways and means advances to the State and keeping the profits thereon) and if we have a real Post Office Bank operating a cheque system, we shall rapidly diminish the area and extent of the exploitation of the public which arises from the present system of credit manipulation. Every industry converted into a State Department or a public utility corporation would be financed through the State Bank, and the area of

private finance would be continuously and progressively circumscribed.

There remains the important question of *sabotage*. Here we are learning much from President Roosevelt's experiments in the United States. Deliberate *sabotage* by the Bank Mandarins would be treason to the Nation and could be promptly dealt with, as any other act of deliberate treason is, or can be, dealt with ; but in truth a deliberate *sabotage* for political purposes is, to say the least of it, extremely unlikely. In the first place, the bank shareholder is in the business not for his health or for his politics but for his pocket, and if his bank refuses, despite a proffered and adequate security, to finance a sound industry or a sound company or individual in an industry, then the bank shareholder will lose his dividends. In the second place, any such *sabotage* would rally the industrial magnates, whom the banks were discriminating against, to ardent and vehement antagonism to the banks. Very reasonably these industrial gentlemen would object to being sacrificed to make political propaganda, and if the banks lose the favour and goodwill of the industrialists they are finished. One deliberate refusal to finance a business if associated with any suspicion of political or economic prejudice, as was alleged in a case of refusal of credits to the Northumberland Miners' Union,¹ drives away huge volumes of banking business for ever. Any similar *sabotage* of an industry would destroy the bank that engaged in it.

On the whole, then, *and so long as private industry run for profit continues, and to the extent to which it continues*, its banking system may well continue also as a private enterprise.

¹ See *ante*, Section on Co-operative Banking.

Finally, the considerations which would discourage us from nationalizing the Joint Stock Banks become even more apparent when we look at the Acceptance Houses and the Discount Houses. The former number about twenty, and are really guarantors for particular transactions in international trading, while the latter—three larger discount companies and seventeen private firms—borrow from the Bank of England and the Joint Stock Banks, and, for a commission, discount (that is, find immediate money for) the Bills of Exchange for which the Acceptance Houses have already guaranteed ultimate payment.

Both Acceptance Houses and Discount Houses perform functions necessary to private trading transactions, and so long as international trading is a matter left to individual citizens and is operated by them for a profit, the Acceptance and Discount Houses had better remain the private risk-taking enterprises that they are now. To some small extent the Exports Credits Department has acted as guarantor and insurer to British exporters and so has invaded the City, but it only guarantees as a rule up to 75 per cent. of the value of the order, and does not, in any case, endorse the bills. The bills are, therefore, not negotiable in the money market. Still it is quite possible, and indeed desirable, that there will be considerable developments in the State guarantee of export-trading risks. But, in general, it may be said that so long as international trade is conducted as between individual sellers and purchasers so long will the City exist to finance that trade.

It is, however, most important to observe, that whosoever controls the Bank of England controls the Discount Market even as he controls the Joint Stock Banks, and if the State were to own and control the

Bank of England, and if (as the Danish Central Bank does now) it controlled all dealings in foreign currency, we should be inflicting hardship on none, but would only be taking the first great step necessary to transform Finance Credit from being what it is to-day, a great machine of exploitation, into a useful national servant.

CHAPTER XXI

HIGH FINANCE AND THE CRISIS OF 1931

‘ Sir Walter Raleigh proposed that he should seize the Mexican plate fleet. Bacon objected that such a proceeding would be piracy, to which Raleigh retorted : “ Did you ever hear of men being pirates for millions ? ” ’—GARDINER’S *History of England*.

IN the summer of 1931 a Labour Government suddenly sagged at its knees and fell dead. High Finance had killed it as High Finance will kill the next Labour Government, and the next again, unless be- times the creation and withdrawal of money credit comes to be generally regarded as a State Service, even as the Navy is regarded as a State Service, and one which the Nation would no more dream of farming out as a job line to a company promoter, than it would dream of farming out the Navy.

When the Government crashed in 1931 there was some loose talk about a Bankers’ Plot. But really there was no Bankers’ Plot ; that is, there was no deliberately conceived, no consciously designed manipulation of the Money Market with the object of achieving a political end in the destruction of a Labour Government. Nevertheless it is true that the day-to-day policy of the Government had to be trimmed, curtailed, and amended, because of decisions taken in the City by groups of the Government’s bitter political enemies. And finally when the City’s beggar-may-neighbour system and the practice of leaving

our tickets for the exchange of goods and services in the control of some thirty non-elected gentlemen (who run a company which is not required by law to file accounts) developed to catastrophe with all the inevitability of a Greek tragedy, impudent clamours were raised by the Money Traders' press, and the public was mesmerized into the belief that it was the Government and not the Money Traders who were responsible for the crisis. There was no Bankers' Plot. What happened was that the system of international lending of other people's money by private groups had collapsed; but the wrong prisoner went into the Dock.

The dismemberment of Austria at the end of the Great War made her economic recovery impossible. Her few remaining industries were heavily indebted to the Banks, and when the Banks, playing, as they thought, for safety, proceeded to call in their loans, thereby compelling borrowers to make a hurried sale of goods at sacrifice prices in order to raise money to repay their debts, Austria made a long sure hop to the precipice. As one method of restricting Bank credits the overdraft rate in Austria was raised to 12 per cent. Then the small man broke. In turn the larger firms could no longer meet their obligations. The first big bank to go was the Boden in 1929, and the Credit Anstalt had to assume its liabilities in order to ward off a general smash. By December 31, 1930, the Credit Anstalt itself was in difficulties; indeed, the losses amounted to its entire share capital and reserves; and the Government of Austria, in association with the Austrian National Bank and Messrs. Rothschild, hurried forward with a loan of 89,000,000 Schillings in a vain last-hour endeavour to save the system. But when, on May 8, 1931,

the Credit Anstalt Balance Sheet was issued, a shiver ran through Europe, and the run upon Austrian credit was intensified. Between May 1931 and the beginning of 1932, there was a total flight of finance capital from Austria, estimated by the Economic Intelligence Service of the League of Nations at no less than 700 to 900 million Schillings.

The affairs of the Credit Anstalt do not further concern us here, beyond noting that its capital of £177,000,000 Schillings had to be written down to 1,000,000 Schillings, and its foreign assets taken over by a Company which was registered (of all places in the world) in Monaco ! Most of the other Viennese banks were perforce similarly reconstructed. The crash was complete.

Into the firing-line the poor British tax-payer had been shoved. On June 17, 1931, the Bank of England advanced £4,400,000 to the Austrian Banks. (This sum, it should be noted, was subsequently reimbursed to the Bank of England by the British Treasury), and three days later, on June 24, 1931, President Hoover proposed a standstill upon international debts for one year, a proposal which was agreed to by Great Britain, at a cost to our National Budget, as Mr. Snowden the Chancellor estimated, of no less than £11,000,000. So far then—and *this carries us down to June 1931*—only by blind partisan folly could the British Labour Government be blamed in any way for the crisis !

But now let us see what effect the Austrian smash had upon Germany, and through Germany, upon Britain. On the day following the Hoover proposal for a postponement of payment of international debt, that is, on June 25, 1931, the Bank of England was to be found co-operating with the Bank of France, the

Federal Reserve Bank of America, and the Bank of International Settlements, in placing £20,000,000 Sterling at the credit of the German Reichsbank. The panic has passed from Austria into Germany, and the money traders of London were by this time, rather seriously alarmed, for they held about 23 per cent. of Germany's foreign-owned short-time debt, part of which they had eagerly scrambled for when Germany was compelled to offer $7\frac{1}{2}$ per cent. to 8 per cent. in interest for accommodation. But by midsummer of 1931 all foreign investment in Germany appeared dangerously like waste paper; the North German Wool Company had closed its doors on July 3, with losses of £15,000,000; following hard upon that blow, the Darmstaedter and National Bank blew up with foreign obligations of £23,000,000; worse still, on July 14 all the German Banks were closed by Governmental decree; and when they were re-opened at the beginning of August, the discount rate was raised to 15 per cent., and the German Government was compelled to make the Banks a contribution of 445,500,000 Reich marks, in return for which it became owner of all the Banks in Berlin with one exception, and that the smallest of the lot.

Now our British banking system, as the Macmillan Committee had previously warned us, was exceptionally open to attack from a continental panic. In 1931 London held over £400,000,000 of foreign short-term funds on loan, and the foreign lenders of that money, when they realized that London had reinvested heavily in bankrupt Austria and Germany, naturally sent out an urgent call to London for the immediate return of their money.

And thus began the drain upon the Bank of England.

Day by day, week by week, gold had to be exported

from Threadneedle Street ; between July 15 and July 29 the gold reserve of the Bank of England fell from £164,000,000 to £132,000,000 ; trade languished ; commerical houses failed : unemployment increased : the sources of public revenue diminished : in a world of plenty, poverty multiplied and intensified.

On July 31, Sir George May's Committee urged that to balance the Budget in Britain there ought to be, *inter alia*, a cut of £66,500,000 upon the insurances and reliefs supplied to the unemployed victims of the collapse in High Finance. The Poor, it appeared, had been eating far more than was consistent with compound interest, and as it was considered to be of the first importance that there should be no cut in the rate of annual tribute upon war loan—not even as in Australia, a voluntary reduction in the rate of interest !—the Government was strongly pressed to balance its Budget by a reduction of the sustenance given to the unemployed.

A majority in the Government strove in desperation against such a solution of the country's difficulties ; that majority was prepared to institute a revenue tariff upon the imports of manufactured goods (and that was a revolutionary and hazardous change indeed for most of them), they declared themselves open to consider further reductions in armaments, and to make whatever other restrictions in expenditure might be adjudged necessary to balance the Budget ; but cut at the poor unemployed victims—No !

Down to this point in the summer of 1931 there was little serious effort on the part of the Money Traders, or their newspaper press, to blame the Government for the crisis. Indeed for several weeks they were accusing the wicked Bank of France of organizing

the run upon London's gold reserves ; but this was demonstrably untrue, and in the early part of August, M. Flandin, the French Chancellor, and M. Laval, the French Premier, both assured me that the charge was baseless, and in the presence of an official witness from the British Embassy in Paris, declared that they had offered to lend money to London in order to save the £ sterling, and that upon at least two occasions when the Bank of France had bought gold, it had done so at the direct request of the Bank of England, which had made the request for purely regulatory and administrative reasons !

It was not easy at the time even for members of the Government to get at the facts. We never saw the Governor of the Bank of England. He was, we were informed, away somewhere in the wilds of Quebec taking a cure for his health, and was far beyond reach of a telephone. Nor did he return until after the Government was broken, and evicted from office. But during the crisis, the Deputy Governor was a regular visitor to the Chancellor at Downing Street, and day by day his lugubrious predictions of disaster, as reported to the Government, seemed to gather intensity. . . . A bad day yesterday . . . so many millions withdrawn from the Bank . . . only a hundred hours to go, and there will then be no money for Old Age Pensions. . . . Next Wednesday will see the finish !! And so on.

On August 1, the Bank of England received authority to acquire a foreign loan of £45,000,000 to meet the drain upon its gold (as like as not some of the new lenders were the withdrawers of a week before, but now were relending at a higher rate of interest) ; and the Chancellor had authorized an increase of £15,000,000 unbacked by gold, in the currency issue.

But still the drain continued. By August 22, the foreign loan of £45,000,000 had almost entirely disappeared, and the Bank had intimated to the Government that another £80,000,000 was absolutely necessary to peg the exchange. But this time, so we were most emphatically assured, the Government itself must borrow ; the credit of the taxpayer must be placed behind any loan secured from Paris and New York ; the credit of Threadneedle Street was no longer adequate security for the backing of a loan.

And again and again we were warned that neither Mr. Harrison of the Federal Reserve Bank in New York, nor M. Moret, the Governor of the Bank of France, would provide the credits necessary to save the Bank of England unless a promise were given that the British Budget would be balanced in such a manner as they, the lenders and their London advisers, approved. Later we had some occasion to doubt whether either Mr. Harrison or M. Moret imposed the precise conditions with which their friends and go-betweens credited (or discredited) them. But at that time, it was, or appeared to be, an ultimatum, and a foreign one at that. A British Budget was to be dictated by Foreign Financiers.

Rather than yield, the majority of the Cabinet resigned.

During the summer of 1931, while this great and moving drama was being played out, the Money Traders were scared stiff with fright. The abler men among them well knew that the financial earthquake that had shaken Austria and Australia, Germany and South America, was not caused by the British Government, but was due to some breakdown in a money system, with which the democracies of Europe

and their elected representatives had been repeatedly warned not to interfere. Yet such was the hysteria of the times that the poor Unemployed, and not the system of private enterprise gambling with other people's money, got blamed in the press for the crisis in our national affairs ; and a wretched campaign of public befuddlement reached its apotheosis in a speech by Mr. Runciman, the new President of the Board of Trade, who in an hour of exaltation at Newcastle-on-Tyne declared that the Unemployed had eaten up 'a substantial part of the assets of the Post Office Savings Bank.'¹

Instead of saving the gold standard and balancing the Budget, by means of a voluntary conversion of the public debt to a lower rate of interest (as they had to do later when the gold standard had gone in any case), and by cancelling the derating subventions given to wealthy and prosperous firms, and by a revenue Tariff and by similar measures, the new Coalition Government borrowed abroad the £80,000,000 at 4½ per cent., plus heavy commissions, and it forced considerable and drastic economies upon the poor. Standards of living everywhere were reduced.

And thus was the money crisis of 1931 met and 'solved.'

No section of us perhaps can afford to be over dogmatic with our remedies and solutions for the next money crisis when it blows up. At best we may but resolve to profit by experience, and to adjust our finance to collective control step by step as we collectivize control of our industry. But already it is clear that the creation of our new money tokens can no longer with safety be left as a private company pre-

¹ *Times*, 26/10/31.

serve : that in citizen finance we can no longer afford Hatryism : and that a widespread development in Municipal banking is a very urgent necessity. Also it is clear that no democratic Government can function freely if its projects are to be at the mercy of its political enemies in the City. And as an essential preliminary to any change towards Democracy in Finance, we must first shatter the delusion that the oracles of the present financial dispensation are to be obeyed with awe and reverence. What advice they have tendered successive governments in the recent past has been proved to be wildly and ludicrously wrong. They were wrong about reparations from Germany and its effects. They were wrong when they advised Mr. Churchill about the Gold Standard, and wrong when they pled in 1931 that the re-suspension of that standard would knock the bottom out of civilization.

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